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A DESCRIPTIVE CASE STUDY OF THE GREENE COUNTY, ALABAMA BANKRUPTCY

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ABSTRACT. To date, only two counties in the United States have filed for bankruptcy protection: Orange County, California (1994) and Greene County, Alabama (1996). This case study pertains only to Greene County. Although economic decline due to a loss of gaming revenues was involved, financial mismanagement was the primary causal factor for Greene County's fiscal stress. This research chronicles an impoverished rural Alabama county whose legislative and administrative decisions resulted in its fiscal stress and municipal bankruptcy. The Greene County bankruptcy case was closed in 1999 and the County continues to operate under a fiscal recovery plan. However, the County has yet to comply with the miscellaneous provisions of the bankruptcy plan that could improve the financial management of the County.

INTRODUCTION

Municipal bankruptcy is considered rare. Approximately 574 U.S. municipalities filed for Chapter 9 protection between 1938 and 2006. The greatest number of bankruptcy filings, 321, occurred in the period 1938 to 1949 (Table 1). The Great Depression, World War II, and postwar economic changes may have contributed to this high

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TABLE 1
Municipal Bankruptcy Filings by Calendar Year, 1938 – 2008

Years	Number of Municipal Bankruptcies
1938 – 1939	106
1940 – 1949	215
1950 – 1959	31
1960 – 1969	8
1970 – 1979	7
1980 – 1989	43
1990 – 1999	109
2000 – 2008	64
Total	583

Source: Author's Compilation of U.S. Bankruptcy Court Statistics Table F-2 (2009); Stowe (2002); ACIR (1973, 1985); Hempel (1973).

number of filings. Only 89 filings occurred in the period of 1950 to 1989. From 1990 to 2006, 164 cases were filed nationally by a mix of political structures: mostly city, town, village and special authority districts (U.S. Bankruptcy Court, 2006). To date, only two counties have filed for bankruptcy: Orange County, California (1994) and Greene County, Alabama (1996). Orange County's fiscal stress was attributed to massive financial mismanagement by the county treasurer whose investment tactics resulted in accumulated losses of approximately $1.6 billion (Baldassare, 1998, pp. 7-8). Greene County's fiscal stress was found to be a mixture of economic decline exacerbated by financial mismanagement by public officials.

According to the National League of Cities 2005 annual report "City Fiscal Conditions in 2005," American cities continue to be faced with key fiscal challenges in their administration of public services such as soaring employee health care and pension costs, increases in services to segments of the population, such as the aging, mandated public safety expenditures, and infrastructure concerns (Pagano & Hoene, 2006). The report indicated that these problems confront all local governments. Furthermore, Fitch Ratings, a bond credit rating agency, recognized that the "impact of disaster preparedness, both in terms of capital and operations; rapidly rising costs for construction materials and fuel; and a possible correction in the real estate market and increase in interest rates" would test local government officials in their financial management abilities in the coming years (Fitch, 2006). Additionally, because of the "...continuing economic effects of September 11, 2001, compliance with mandatory Department of Homeland Security directives, and reduced tax revenues coupled with increased costs for delivery of service...", local government finance could easily experience extreme fiscal stress (Laughlin, 2005, p. 37).

Local Governments

Local government structures in the United States include counties, cities, towns, villages, special districts, authorities, and school districts. Local governments are created by the state through either state constitutional organization (counties) or incorporation by the state. Counties are considered the administrative arm of the state and perform state-mandated duties such as election administration, road maintenance, property recordkeeping, and judicial functions. In contrast, a municipality is a political unit which is incorporated by the state for purposes of local self-government and provides services such as police and fire protection, sanitation, and parks and recreation.

Municipal Bankruptcy Legislation

In 1934, the U.S. Congress enacted municipal bankruptcy legislation in response to the high municipal bond defaults due to the economic depression of the 1930s. During that period, municipal bond defaults went from 678 in 1932 to approximately 4,770 by the end of the 1930s (Hempel, 1973, p. 1340). The act was amended in 1937 to include local government voluntary filings subject to state authoritative approval. Then in 1940, Congress amended the act, again, to include protection for county governments that had been excluded from the previous bankruptcy legislation. The Act was made a permanent part of the U.S. Bankruptcy Law in 1946 and referred to as "Chapter 9."

PURPOSE OF THE STUDY

This study was undertaken to provide additional information on the Greene County bankruptcy so as to expand the available literature pertaining to county bankruptcy filings in the U.S. The study addressed the following questions:

1. What were the specific factors that led to the Greene County bankruptcy in Alabama in 1996?
2. What lessons can be learned from this bankruptcy to help other local governments avoid Chapter 9 in the future?

The article is presented to the reader as follows: Introduction, Purpose of the Study, Literature Review, Greene County Municipal Bankruptcy Case Study, Summary of the Findings Greene County Case Study and Conclusions, and Recommendations for Future Research.

LITERATURE REVIEW

The literature review is presented in three sections. The first section defines financial condition as found in the existing literature. The second section presents a summary of five comprehensive case studies on Chapter 9 bankruptcies. The published case studies include the Advisory Commission on Intergovernmental Relations (ACIR, 1985), Baldassare (1998), Park (2004), Watson, Handley, and Hassett (2005), and Landry and McCarty (2007). The third section presents other literature findings relating to fiscal stress studies of local governments.

Local Government Financial Condition

The term financial condition has been used in discussion of local government's financial health for many years. Ladd and Yinger (1991) defined fiscal health as the ability of a city to deliver public services to its citizens. The International City/County Management Association defined financial condition as a "local government's ability to finance its services on a continuing basis" (ICMA, 2003, p. 29). Mead stated that "...financial condition looks forward from the financial statement date: a government's ability to provide services and finance obligations as they come due....Financial condition is the more comprehensive barometer of a government's fiscal health" (Mead, 2001, p. 113). Financial condition, like physical condition, can be good or bad, strong or weak, positive or negative.

In the governmental environment, the assessment of financial condition is made directly or indirectly by the multiple constituents of that government. The elected official's assessment of financial condition is highly influenced by the impact of fiscal information on the electorate. The electorate, if provided with understandable financial information, will likely assess the government's financial condition on whether or not it received the specific services that were wanted and at the quality of service desired. The vendors and service providers will assess the financial condition based on prompt remuneration for their services to the government. The agency managers undoubtedly will consider financial condition in terms of the availability of government resources to fund their agency's operations (Honadle, Cigler, & Costa, 2004). All four groups, if they receive the resources requested, would consider financial condition to be positive; if not, they probably would consider financial condition of the government to be less than adequate.

The expression "fiscal strain" was first used in the 1970s to describe the financial problems of large cities (Martin, 1982). This term is used throughout the literature to describe a government that can no longer provide services and/or make timely payments on debt (Martin, 1982; Rose & Page, 1982; Pagano & Moore, 1985). Although economic factors are certainly in play when governments are experiencing financial problems, the underlying causal factor for fiscally strained municipalities is political, a "lack of adaptation by government to a changing environment" (Clark & Appleton, 1989, p. 47).

Comprehensive Case Studies

In 1973, in the wake of the Cleveland, Ohio, and New York City financial emergencies, the Advisory Commission on Intergovernmental Relations (ACIR, 1973) studied the financial condition of 30 major cities in the United States in an attempt to identify factors that contributed to the fiscal decline in local governments. The study identified severe financial emergencies resulting from bond defaults, not meeting payroll, pension benefits, and/or payments to suppliers. However, "Unsound financial management stands out as one of the most important potential causes of financial emergencies in local governments" (Advisory Commission on Intergovernmental Relations, 1973, p. 5).

In 1985, the ACIR (1985) updated its 1973 study to include case studies of the 18 bankruptcies in local governments that occurred between 1973 and 1983. The Commission reported additional fiscal problems not present in the 1973 report including losses from court judgments, losses in real estate development districts, and changes in intergovernmental fiscal or structural relationships where reduced funding from a higher or primary government played a role in the fiscal stress of the local government. However, financial mismanagement, along with inadequate planning, were the primary factors of financial strain which may lead to bankruptcy, default and a combination of both in local government.

In analyzing the Orange County, California, bankruptcy, Baldassare (1998) pointed to three conditions – political fragmentation, voter distrust, and state fiscal austerity - that enabled the bankruptcy to occur in 1994. Orange County's fiscal stress was mainly due to massive financial mismanagement by the county treasurer who had used risky investment tactics for the government's funds and accumulated losses of over $1.6 billion. The county treasurer's actions were left unchecked by other local government officials as well as state officials. Baldassare (1998) posited that holding local officials accountable for their actions and maintaining high standards for fiscal oversight and accountability is crucial to avoiding future bankruptcies in local governments.

The Park study of local government bankruptcies developed a multi-dimensional causal model that details the causes of bankruptcy within a local government from three perspectives: short-run and long-run factors, internal and external factors, and political and economic factors. Park's study supported his original theory that bankruptcy can be explained by his hypothesized perspectives "... bankruptcy is a form of government failure, not just a market failure" (Park, 2004, p. 251). Essentially, Park found that political factors rather than economic factors played a heavier role in the financial failure of the local governments studied.

Watson, Handley and Hassett (2005) have also studied the causes of financial stress, including the bankruptcy that was filed by the City of Prichard, Alabama, in 1999. The authors identified five socio-economic conditions they believe were significant contributors to fiscal stress in local governments: financial mismanagement, decline in population, rising per capita costs, structural change in the economic base, natural or man-made disasters, and civic distrust. Watson, Handley and Hassett inferred that Prichard could have avoided bankruptcy if not for the political and managerial impediments experienced by the city.

Landry and McCarty (2007) conducted a comparative analysis of the only two counties to file for Chapter 9 bankruptcy. They studied Orange County, California (1994), and Greene County, Alabama (1996), in order to draw comparisons among diverse counties that file for bankruptcy and found that each government relied on revenue sources that were risky to fund a large portion of their governmental operations. The authors also emphasized that both local governments had one commonality in that the leadership of the county governments was both ineffective as well as unwilling to plan for the future financial health of the local governments.

Table 2 summarizes the purpose, the identifiable fiscal problems, and the primary or most important causal factor of financial stress as reported in the five comprehensive case studies on Chapter 9 bankruptcy. The comprehensive case studies discussed the causal factors leading to the government's fiscal stress. Each case set out specific identifiable fiscal problems and identified the primary factor for bankruptcy filings. All of the primary factors cited within these comprehensive cases are a form of financial mismanagement.

Other Selected Literature on Local Government Fiscal Stress Studies

Many theorists have conducted studies on local governments in the United States in an attempt to define fiscal stress conceptually by identifying common financial and accounting factors among financially strained local governments. The common finding of these reports is that city financial problems do not happen overnight (Martin, 1982; Frank & Dluhy, 2003). Rather, the problem accumulates over years of inaccurate forecasting, continuous deficits and financial mismanagement. Martin's findings for the cities of Boston and Detroit indicated that financial problems for both cities were not "news" to city officials as the problems had been accumulating for years and were not addressed by city management in a timely manner. Frank and Dluhy (2003) concluded that Miami's fiscal crisis could have been avoided if management practices, especially those in the accounting and budgeting areas, had been

TABLE 2
Summary of Identifiable Fiscal Problems and Primary Causal Factors
Comprehensive Case Studies on Chapter 9 Bankruptcies

Year	Author(s)	Study Purpose	Identifiable Fiscal Problem	Primary Factors
1985	ACIR updated 1973 study to include bankruptcy cases	Study financial condition; Determine factors for fiscal stress	1973 and 1985 Factors: Bond defaults, not meeting payroll, not paying pension benefits, Not paying vendors Additional 1985 Factors: Court judgments, real estate development district losses, unfunded mandates	Unsound financial management and inadequate planning
1998	Baldassare	Orange County, CA bankruptcy	High risk investment activity	Lack of financial controls and oversight
2004	Park	Determine reason for local government seeking Chapter 9 protection	3 perspective theory: short/long-run factors, Internal/external factors, political/ economic factors	Poor political and financial management
2005	Watson, Handley and Hassett	City of Prichard bankruptcy	Decline in population, rising per capita costs, Economic base structural changes, natural/man-made disasters; civic distrust	Financial mis-management
2007	Landry and McCarty	Comparative study of Orange County, CA and Greene County, AL bankruptcy filings	Risky revenue sources	Ineffective leadership; Lack of strategic planning

implemented and if the government officials had been held accountable by the voters of the Miami area.

Lewis (1994) confirmed the 1985 ACIR finding in that "municipal bankruptcy has been affected by evolution in municipal liability and in the contemporary inclination to press claims in the courts. In most of the few instances in which general-purpose governments secured bankruptcy protection over the past decade, filings were initiated in direct response to court judgments against the jurisdictions" (Lewis, 1994, p. 6). Again, lack of planning and financial preparedness through insurance and risk management tools could have minimized or avoided the need for bankruptcy protection in these cases.

The Rubin (1982) case study on fiscal stress in a local government did not identify its subject, a middle-sized Midwestern city. However, the causal factors and findings were consistent with existing research. Rubin did discuss the future impact on a government undergoing fiscal stress: borrowing costs are normally increased; debt service takes a larger portion of the budget thus decreasing discretionary spending; and costs of goods and services increase largely due to the reluctance of vendors to deal with an organization that is delinquent with payments. These future challenges were also consistent with the other case studies.

The comprehensive case studies and the other local government fiscal stress studies discussed the causal factors leading to the government's fiscal stress. Specific identifiable fiscal problems were identified but the overriding factor was consistently financial mismanagement. Although political factors may cause an elected official to postpone a difficult financial decision, no decision is a management decision. Therefore, no decision, political or not, when one is required by the entity's circumstances is financial mismanagement. Financial mismanagement, besides the lack of planning, can take many forms from outright ineptitude of officials to unsound spending or investing decisions that are contrary to proper public policy or outright illegal.

THE GREENE COUNTY MUNICIPAL BANKRUPTCY CASE STUDY

The research addressed the following questions: What were the specific factors that led to this particular local government's bankruptcy in Alabama in 1996? What lessons can be learned from this bankruptcy to help other local governments avoid bankruptcy in the future?

The Alabama Economic Environment

The study of Greene County began with an economic analysis of the State of Alabama. This initial analysis removed the possibility that Greene County was suffering economically from state economic problems and/or state policy or legislative mandates that adversely affected the local governments. Neither of these scenarios was found in our research and, therefore, was not considered a causal factor of Green County's bankruptcy. To the contrary, the State of Alabama had recently enjoyed a revival in its economic development with the building and operation of three international automotive plants (Mercedes, Honda, and Hyundai) since 1990. According to the U.S. Census, the state's population increased over 10 percent during 1990- 2000 and approximately 2.5 percent during 2000-2005 (Census, 2006).

The 2002 census ranked Alabama 26th according in the total number of local governments per state compared to the other 50 states (Bureau of Census, 2002). The political structure of Alabama includes 67 counties and 460 city and town governments. Also, there are 525 special district governments that include authority-based structure types such as airport authority, housing authority, water and sewer authority, and hospital/health authority. Alabama has 130 school district type governments. Table 3 demonstrates the overall local government revenues and expenditures for the years 1991 and 2003, and the percentage change between these years (Bureau of Census, 2006).

As reported in the Table 3 comparative data, expenditures rose in accordance with the increase in revenues. In the aggregate, however, expenditures exceeded resources available for the years shown. Obviously, not all local governments in Alabama lived beyond their means during this period. The data does indicate that some local governments did experience expenditures in excess of revenue. This does not necessarily indicate fiscal strain if previous year's resources were unexpended and available for the current year expenditures. Additionally, interviews with state financial officials indicated there were no statewide economic or funding problems during this period.

TABLE 3
Comparison of Alabama Local Government Revenues and Expenditures, Years 1991 and 2003

Year	1991 (In $1,000)	2003 (In $1,000)	Percentage Increase
Local Government Revenues	7,674,421	15,474,503	101.6%
Local Government Expenditures	8,084,806	15,900,528	97.0%
Deficit	(410,305)	(426,025)	4.0%

Source: Bureau of Census (2006).

The literature search did identify nine filings of bankruptcies by local governments in Alabama during the period of 1990-2004. These bankruptcies were filed by various levels of local government in Alabama including county, city, town and special authority districts. The local governments affected as well as the year of the bankruptcy filing were: City of Lipscomb (1991), Town of North Courtland (1992), Alabama State Fair Authority (1994), Greene County (1996), West Walker Water Authority (1998), City of Prichard (1999), West Jefferson Amusement and Public Park Authority (2002), Etowah Solid Waste Authority (2002), and the Town of Millport (2004). After a review and analysis, all filings appear to be isolated to local financial difficulties that were unrelated to one another or to Alabama's economy.

Greene County Bankruptcy

Greene County is located in the western section of Alabama close to the Mississippi line and has the smallest population of any county in Alabama. The population in 1990 was slightly more than 10,000 and, in 2005, the population estimate was 9,661. The 2005 census also indicates that Greene County residents are among the poorest in Alabama with 34.3 percent of individuals living below the poverty level (Bureau of Census, 2006). The Greene County Commission passed a resolution to file for bankruptcy on September 9, 1996, and petitioned the bankruptcy court for Chapter 9 protection on September 11, 1996 (Resolution, 1996). The initial Chapter 9 bankruptcy papers included $154 million in claims as outstanding obligations. Eighty-seven of those claims were made by individual residents who each claimed a liability of the county for approximately

$1.7 million, totaling approximately $152 million. Reasons for these claims were unknown and were subsequently dismissed by the court (Confidential Interview with Public Official, March 15, 2007). An Amended Plan of Adjustment of Debts filed with the bankruptcy court on June 16, 1997, listed total outstanding obligations of $3,409,947.96 (Greene County Commission, 1997, Exhibit A). The difference between the original total of $154 million and the final total was not reconcilable.

Socioeconomic data indicated that roughly 45 percent of the Greene county residents lived below the poverty level and over one-third were receiving governmental benefits (Nossiter, 1996, p. 22). Greene County also had the slowest population growth in Alabama between 1990 and 1995, and experienced the highest unemployment rate in the state, 18.8 percent at the time of the bankruptcy (Greene Bankruptcy Commission, 1996, p. 10A).

Many newspaper articles cited audit findings that indicated mismanagement of public funds and decline in revenues from the privately owned Greenetrack racing operation as the main contributing factors for this bankruptcy. The bankruptcy documents filed September 12 indicated that the filing "... was principally the result of declining revenues from the operations of Greenetrack, a dog racing facility located in Greene County, Alabama" (Greene County Commission, 1997, p. 6). The bankruptcy documents made no mention of the audit findings or financial mismanagement of public funds. This is especially noteworthy because Alabama Department of Examiners of Public Accounts (1996), in its *Review of Compliance Report on Greene County Commission for the years 1991-1994* issued on August 23, 1996, stated that the County Commission had over $1.7 million in mismanaged funds

An archival review of the October 1991-September 1994 Review of Compliance Report documented the Examiners' 27 findings pertaining to state legal compliance, agency operations and inappropriate financial procedures (Alabama Department of Examiners of Public Accounts, 1996). Sixteen of those findings were repeat findings from previous reviews that had not been resolved by the Commission. A brief summary of these findings is found in Table 4.

TABLE 4
Summary of Review of Compliance Findings for Greene County Commission Conducted by the Alabama Department of Examiners of Public Accounts (October 1991-September 1994 Period)

Examiners Finding	Finding cited from previous compliance examinations
Payroll journal for 1993-1994 fiscal year was the only journal or ledger provided by the Commission for examination review.	
Expenditure claims for several funds were misplaced, lost, or otherwise unavailable for review.	
The Commission was severely delinquent in filing statements of reappraisal maintenance expenditures with the State Department of Revenue. (Statements are to be filed monthly by the 20th of each month.)	
Commission was late in payment of federal income and FICA taxes and withholdings to the Internal Revenue Service. Often payments did not agree with payroll journal and records. IRS filed a lien and demanded payment during this examination period.	
Numerous, questionable, and lengthy long distance calls, appearing to be of personal nature were made by County Economic Development Office staff.	
Gasoline Tax Fund paid for several expenditures deemed unallowable by Code of Alabama 1975, Sections 40-17-75 through 82. Loans from Gasoline Tax Fund were made to General Fund in amount of $50,832 during this audit period. Gasoline Tax Fund monies are restricted to expenditures pertaining to public roads and bridges.	X
County Courthouse Funds, set up under Act 85-936, were loaned to the General Fund for general operations which were unallowable under legislation.	
County sales tax was not properly remitted to the Greene County Hospital Board as required by Act 487 of Alabama (1977).	
General Fund did not reimburse other funds for expenditures made on behalf of other county departments. Checks were written for monthly reimbursements and entered into the accounting system; however, the checks were never actually deposited into the other funds.	

TABLE 4 (Continued)

Examiners Finding	Finding cited from previous compliance examinations
Rental contract not in place between the county and the Society of Folk Arts and Culture, a nonprofit organization which occupies a portion of a county-owned building.	
Commission did not publish semi-annual financial statements as required by Code of Alabama, 1975, Section 11-3-21.	X
Budgets were not properly prepared, approved and disclosed in the Commission minutes as required by Code of Alabama 1975, Section 11-8-3.	X
Deficit fund balances found in several of county's funds. Code of Alabama 1975, Section 11-8-3 prohibits this practice.	X
County wrote 1665 insufficient fund checks and incurred bank charges for insufficient fund fees totaling $20,368 during this audit period. Code of Alabama 1975, Section 11-8-10, prohibits issuance of checks until funds are available for payment.	X
Annual payment required under Act 118 (Acts of Alabama 1969, page 395) to the Greene County Board of Education has not been paid since the 1988-1989 fiscal year. Annual payment is to be $4000.	X
Travel advances and mileage payments to commissioners not properly documented nor settled in a timely manner.	X
Disbursement claims had severe documentation problems: Lack of material receipt; numbered claims missing; payments made from duplicate invoices; no invoice or other documentation to support disbursements found in examination.	X
Annual payment required under Act 118, Acts of Alabama 1969, page 395, to the Greene County Board of Education has not been paid since the 1988-1989 fiscal year. Annual payment is to be $4000.	X
Travel advances and mileage payments to Commissioners not properly documented nor settled in a timely manner.	X
Disbursement claims had severe documentation problems: Lack of material receipt; numbered claims missing; payments made from duplicate invoices; no invoice or other documentation to support disbursements found in examination.	X

TABLE 4 (Continued)

Examiners' Finding	Finding cited from previous compliance examinations
Loans made from restricted special revenue funds to the General Fund. From this examination period $50,832 due to the Gasoline Fund and $185,000 due to the RRR Gasoline Fund.	X
Distributions of county beer tax to other municipal agencies, set up under Act 88-627 of Alabama, were not made in a timely manner. Other agencies due $86,217 during this audit period.	X
Distributions of pari-mutuel racing receipts, set up under Act 85-936 of Alabama, were not made in a timely manner. Some payments were owed and some overpaid by Commission. Other agencies due $90,150 and $11,167 overpaid to agencies during this audit period.	X
Reservations of fund balances were not accurately reflected in Commission's books and records.	X
Commission did not comply with all provisions of the Alabama Competitive Bid Law and could not provide bids or copies of state bids for several purchases.	X

Source: Alabama Department of Examiners of Accounts (1996, pp. A-K).

As a result of these findings, the Alabama Department of Examiners of Public Accounts charged county commission officials personally to repay $766,916.66 to the county due to their mismanagement of governmental funds for the 1991-1994 fiscal periods. The charges stemmed from unsettled travel advances, payments made without supporting documentation, unauthorized temporary loans or restricted monies from certain special revenue funds, insufficient fund check charges, unauthorized purchases from special revenue monies, and failure to redistribute all county sales tax and beer tax received by the commission to the appropriate agencies. Further, the Examiners noted that charges totaling almost $2,000,000 from previous compliance reviews were still outstanding and had not been remitted by the county commission members. The county commission members declined to pay the charges and a hearing before the Chief Examiner of the Public Accounts with county officials occurred on March 8, 1996. The Chief Examiner made a ruling on August 13, 1996, that the county commission public officials and employees had not provided any reason why the charges should not be repaid and the commission, therefore, was liable for such repayment of the amounts listed in the compliance review report provided by the Alabama Department of Examiner of Accounts (R.L. Jones to Greene County Commission, Personal Communication, January 5, 1996, August 13, 1996).

In a subsequent compliance review of the Greene County Commission covering the period October 1994 through September 1997, 14 findings were noted by the Examiners with 11 of these findings being from previous compliance reviews. These findings were of the same nature as those shown in Table 4. However, the Examiners did note that the commission was no longer delinquent on remitting federal income and FICA taxes and withholdings to the IRS. The Examiners found that insufficient fund check charges had been incurred in the amount of $11,475 for the 1994-1995 fiscal year alone; travel reimbursement forms were often inaccurate; accounting records contained limited information and were often found to be inaccurate or unreliable for examination purposes; general fund and other special revenue fund expenditure claims and documentation to support the expenditures were misplaced, lost or otherwise unavailable for review; travel advances were not properly documented or itemized by the public officials; and sales and beer tax were not always remitted on a timely basis to other government agencies as provided for in the legislation (Alabama Department of Examiners of Public Accounts, 1998, pp. A-G). No documentary evidence revealed a hearing was held on these later findings.

A unique finding in the 1994-1997 examination referenced the transfer of ownership by the Greene Group of the Greenetrack greyhound racing facility in Greene County to the county government and the Greenetrack employees. The agreement was interpreted by the examiners as a shared ownership between the Greene County government and the track employees. The examiners noted that no legal authority under Alabama law provided for this type of ownership transfer. Therefore, the county government did not have the legislative authority to operate a pari-mutuel facility (Alabama Department of Examiners of Public Accounts, 1998, p. B). The track was offered to the county government as an alternative to closing the facility altogether (Confidential Interview with Public Official, March 15, 2007).

The information shown in Table 5 was compiled from Exhibit A of the Chapter 9 bankruptcy records, an in-depth analysis of the audits, research of Alabama Acts 77-487, 85-936, 88-627, 87-651, Code of Alabama Chapter 11, and personal conversations with personnel from the Alabama Department of Examiners of Public Accounts and the Alabama Department of Revenue concerning statutory tax receipts and disbursements. The Green County Commission's liabilities totaling $3,409,947.96 are summarized in Table 5 and were submitted with the Amended Plan of Adjustment of Debts filed with the bankruptcy court on June 16, 1997.

TABLE 5
Greene County Commission Liabilities As Shown in the 1997 Amended Disclosure Statement

Claimant	Amount	Type of Liability
Courthouse Bond Issue	$1,015,000.00	General Obligation Bond Issue for new courthouse.
Internal Revenue Service (IRS)	$519,000.00	Past-due withholding taxes of employees and related FICA payments. IRS had placed a lien on the Commission.
Greene County Gasoline Fund	$346,616.00	General Fund owed this fund 7-cent gasoline tax revenues received and not used for the construction, improvement, maintenance and supervision of highways, bridges and streets and for retirement of related bonds. Commission had used the funds inappropriately for landfill expenditures.
Greene County RRR Fund	$250,000.00	General Fund owed this fund the 3-cent gasoline tax revenue for the construction of high density unpaved roads or for the reconstruction, resurfacing, restoration, and rehabilitation of paved county roads.
Greene County Hospital	$236,641.11	Established under Alabama Act 77-487, Act 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel tax, and beer tax should have been remitted by the Commission to hospital.

TABLE 5 (Continued)

Claimant	Amount	Type of Liability
Greene County Board of Education	$172,271.00	Established under Alabama Act 77-487, Act 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel tax, and beer tax should have been remitted by the Commission to Board of Education.
Greene County Courthouse Fund	$137,650.00	Established under Alabama Act 85-936, a portion of the pari-mutuel tax should have been remitted by the Commission to the restricted fund. Revenues from this fund were also improperly loaned to the general fund of the Commission.
Merchants and Farmers Bank	$129,000.00	Grant Anticipation Note
Caterpillar Financial Services	$77,173.98	Equipment Lease Creditor
Greene County Reappraisal Fund	$70,240.51	Reappraisal expenditures were initially paid from General Fund and reimbursed from Reappraisal Fund. Reimbursements from the Reappraisal fund exceeded actual expenditures made by the General Fund.
Community Services Program	$66,865.69	Established under Alabama Act 77-487 and Act 88-627, a portion of the sales tax and beer tax should have been remitted by the Commission to the government unit.
Ford Motor Credit	$47,602.92	Equipment/vehicle lease creditor
Greene County Industrial Development Board	$42,000.00	Established under Alabama Act 77-487, 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel and beer tax should have been remitted by the Commission to government unit.
Thompson Tractor	$41,700.86	Equipment lease creditor
Roberts and Son, Inc.	$38,000.00	Provided road and bridge services.
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Roberts and Son, Inc.	$38,000.00	Provided road and bridge services.

TABLE 5 (Continued)

Claimant	Amount	Type of Liability
Case Credit	$37,555.65	Equipment lease creditor
State of Alabama Department of Revenue	$37,000.00	Past-due withholding taxes of employees and statutory payments to state.
Town of Union	$35,406.69	Established under Alabama Act 77-487, 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel and beer tax should have been remitted by the Commission to government unit.
S.T. Bunn	$35,114.87	Road and bridge services contractor.
Unsecured Creditors	$24,728.98	General Operations
Town of Boligee	$15,396.39	Established under Alabama Act 77-487, 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel and beer tax should have been remitted by the Commission to government unit.
Greene County Health Department	$9,904.84	Established under Alabama Act 77-487, 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel and beer tax should have been remitted by the Commission to government unit.
Gemini Consultants	$7,466.68	Equipment lease creditor
West Alabama Health Services	$6,901.27	Established under Alabama Act 77-487, 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel and beer tax should have been remitted by the Commission to this government unit.
Town of Forkland	$6,848.42	Established under Alabama Act 77-487, 85-936 and Act 88-627, a portion of the sales tax, pari-mutuel and beer tax should have been remitted by the Commission to this government unit.
Other Governmental Entities	$3,862.10	Portion of sales tax, pari-mutuel and beer tax should have been remitted to government units.
Total Liabilities	$3,409,947.96	

Source: Greene County Commission (1997).

In addition to the charges of mismanagement of county funds, the county's problems were compounded as the commission increasingly relied on the tax revenue paid from Greenetrack, a privately-owned dog racing track which opened in 1977. The revenue collections were a major source of revenues for the commission. In addition, the general obligation warrant for the courthouse, in the amount of $1.2 million, was supported by a levy at the dog track and three mills of property tax. During early operations when the dog track was prosperous, this business entity accounted for over one-third of Greene County's revenue in its annual budget. From 1977 through 1993, the Commission received approximately $35 million in revenue from the dog racetrack (Sikora, 1996; Editorial, 1997, p. 10A, Shah, 1997, pp. 1-2). Greene County benefited greatly from the track's presence in not only the generation of tax revenues but also in the employment of its residents. The introduction of dog racing in Birmingham in 1992 and the 1994 opening of nearby casinos in Philadelphia, Mississippi, resulted in significant revenue losses to Greenetrack. The financial reports indicate that the track received $98 million in wagers (bets) during the 1988 fiscal year. The figure dropped dramatically to $24 million in 1994 (Bolton, 1996).

Bankruptcy records indicated the revenues depicted in Table 6 were disbursed by Greenetrack to Greene County for the years 1990 – 1996. Greene County experienced a reduction of approximately $900,000 or 98.4% in tax revenues from Greenetrack in a seven-year period.

TABLE 6
Revenues from Greenetrack Received by Greene County, 1990-1996

Year	Revenue Amount
1990	$908,000
1991	$812,000
1992	$576,000
1993	$222,000
1994	$187,600
1995	$60,400
1996	$14,400

Source: Greene County Commission, (1997, Exhibit 8).

As a result of the compliance review findings and the subsequent bankruptcy, Citizens for a Better Greene County was formed to address the financial mismanagement by the commission as well as the state of economic affairs in the county. This group was instrumental in bringing public attention to the financial mismanagement of Greene County that resulted in a grand jury investigation of the commission members. The grand jury twice called for the impeachment of the county chairman and two commission members. However, according to the district attorney and the state attorney general, "…impeachment was not possible under state law because the alleged misuse occurred in a prior term…" (Editorial, 1997, p. 2C).

Despite the immense financial stress in the local government, the bankruptcy case was closed on October 21, 1999, and the county continues to work under a fiscal recovery plan. Furthermore, Greene County did not miss debt service payments on the $1.2 million bond issue for the new county courthouse which is projected to be paid in full in 2010 (Shah, 1997). A request was made to the commission for the financial statements and budgets from these years to review the impact of the loss of revenues on the governmental services provided by the county. However, these reports were not made available.

SUMMARY OF GREENE COUNTY CASE FINDINGS

Causal Factors

The overall contributing factors to the Greene County bankruptcy were financial mismanagement by county administrators and the decline of county economic conditions due to the loss of revenue from Greenetrack. Although Greene County has been adversely affected by loss of industry in the form of Greenetrack and subsequent tax base, the economic conditions were not the sole cause of this particular bankruptcy. [A decline in revenues did not happen overnight; officials did not react in a timely manner.] Greene County Commission (1997) went from receiving revenues of $908,000 in 1990 to $14,400 in 1996 from Greenetrack, the revenues having dropped 11% in 1991, 30% in 1992, and 61% in 1993. The sharp decline in receipts should have been noticed by the commission and the county administration. Instead, the Commission continued to budget and spend without adequate revenues to support these financial budgets.

In the case of financial mismanagement, several warning signals that should have been apparent to government officials were not recognized or were ignored for political reasons. Not only was the Greene County Commission severely delinquent in their requisite payments to the Internal Revenue Service and their statutory payments to the State of Alabama and other counties and municipalities, but the Commission violated Alabama Code by incurring insufficient fund check charges and disbursing monies prior to having funds available on deposit (Alabama Code §11-8-10; §11-43-120, see Alabama State Legislature [1975]). As an example, Greene County incurred $20,368 in insufficient fund check charges for the 1991 to 1994 periods (Alabama Department of Examiners of Public Accounts, 1996). Furthermore, the fiscally stressed local government was severely delinquent in payments to vendors and did not have an adequate reserve in the fund balance to continue operating. Public officials had not planned for any financial emergencies even though evidence of financial stress was apparent.

If the incidents of financial mismanagement, cited earlier by the Alabama Department of Examiners of Public Accounts, had been corrected, the argument attributable to poor financial management would not exist. However, in the 2001 to 2004 *Review of Compliance Report on the Greene County Commission*, the Alabama Department of Examiners of Public Accounts (2006) found that Greene County had continued to incur insufficient fund check charges ($9,217), was delinquent in payments to the IRS and other local governments (amounts not stated), and did not publish semi-annual financial statements as required under §11-3-21 of the Code of Alabama.

Further, the "Amended Plan of Adjustment of Debts," filed June 16, 1997 by the Commission showed several Miscellaneous Provisions that the local government was to comply with under the bankruptcy agreement (p. 10). A partial list, as pertaining to the financial management of the Commission after the bankruptcy filing, is compiled in Table 7. According to the Review of Compliance Report for the 2001 to 2004 period, the Commission did not comply with the provision in the bankruptcy plan to obtain timely audits by a CPA firm. Also, Greene County did not obtain assistance from any firm in developing and implementing accounting procedures in compliance with state and federal law as well as generally accepted governmental accounting and auditing standards (Alabama Department of Examiners of Public Accounts, 2006, pp. A-F).

TABLE 7
Miscellaneous Provisions under the Amended Plan of Adjustment of Debts in the Greene County Bankruptcy Filed in U.S. Court June 16, 1997

Miscellaneous Provisions in Bankruptcy Documents Pertaining to Financial Management Procedures	Examiners of Public Accounts Found Public Officials Had Not Implemented These Provisions
<u>Provision #1</u> – The Greene County Commission shall, upon the Effective Date, retain a certified public accounting firm with significant governmental accounting experience to provide the following services:	
(1) All audits required by applicable state or federal law	no evidence of compliance
(2) Ongoing financial advisory assistance and services on a regular basis as needed	no evidence of compliance
(3) Assistance in the development and implementation of accounting procedures to assure compliance with the terms of the Bankruptcy Plan, applicable state or federal law, and generally accepted accounting principles	no evidence of compliance
(4) A semi-annual certification of compliance by the County with the Plan to the Department of Examiners of Public Accounts.	no evidence of compliance
<u>Provision #4</u> – The Greene County Commission shall adopt for its employees and members such travel reimbursement and travel advance restrictions as imposed by the State of Alabama upon state employees, including but not limited to, the prohibition of reimbursement for any undocumented travel expenses or related expenditures.	no evidence of compliance

Source: Greene County Commission (1997, p. 10); Alabama Department of Examiners of Public Accounts, 2006, p. C).

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The Greene County bankruptcy analysis is consistent with the findings of research in the public finance field related to local government bankruptcies (ACIR, 1973, 1985; Baldassare, 1998; Park, 2004; Watson, Handley & Hassett, 2005; Landry & McCarty, 2007) as well as that of the fiscal stress studies (Martin, 1982; Rubin, 1982; Lewis, 1994; Frank & Dluhy, 2003). Most local government bankruptcies occur as a result of two unfavorable elements. The first is economic problems such as revenue decreases or rapid and unexpected increases in operating costs and, second, financial mismanagement by public officials, elected or appointed.

This research also found that this particular Alabama local government bankruptcy occurred in a locality where declining socioeconomic conditions affected the availability of government resources. The loss of revenue tax base from Greenetrack may have left the local government with a disproportionate number of poor, uneducated, and unemployed residents who were unable to sustain the necessary revenue base and possibly had a higher level of need for government services. The deteriorating fiscal capacity of the local government may have had an additional effect on the implementation and maintenance of sound financial policies and the ability to hire quality financial personnel.

Like Baldassare (1998), the authors maintain that many local officials are given accounting and financial management positions without the proper financial expertise necessary to deal with the complex regulatory issues of the government environment today. At a minimum, local elected officials need to have a better understanding of finance and accounting regulations as well as sound practices of government planning and the ability to effectively recognize and manage unpopular political decisions that are the result of financial stress.

The authors also maintain like Park (2004) and Landry and McCarty (2007) that state governments should strengthen the audit powers of the state to ensure that political and economic powers are not abused at the local level. Practices such as incorporation of financial trends or indicators to assess financial condition of local governments on an ongoing basis, adequate liability insurance and insured bonds should be mandated by the state governments in order to keep local government finances flowing smoothly. As such, states need to study cases like that of the Greene County bankruptcy to establish economic guidelines and benchmarks that are an indication of fiscal stress.

Finally, the ACIR (1973, 1985) has reported that it was the state's responsibility to monitor and evaluate the finances of the local governments and that Chapter 9 should be only used when there was no other recourse. Many states, such as North Carolina, Ohio and Pennsylvania, have implemented some level of state intervention when local government experiences fiscal stress. Each state needs to ascertain the level of state government involvement to help their respective local governments avoid bankruptcies. Determining the point of intervention and how that intervention will protect the rights of the stakeholders is a critical area for future research. In addition, research is needed to establish the financial indicators that would best predict fiscal stress as well as prevent local government bankruptcies.

The increase in the number of local government bankruptcies since 1990 and most notably the financial crises that were experienced in Orange County, California (1994), Greene County, Alabama (1996) and City of Vallejo, California (2008) and the dire fiscal problems in Jefferson County, Alabama reinforces the continued importance of studying fiscal crisis of local governments. Presently, Jefferson County, has been teetering on the edge of bankruptcy for over a year and very well may make history as the largest municipal bankruptcy ever filed in the United States. The county's sewer system debt, estimated at $3.2 billion, will certainly exceed the $2.1 billion debt of Orange County as well as has strained the county's finances to the point where services are being cut.

In 2005, the federal bankruptcy legislation was changed to include credit counseling as a prerequisite for individuals who filed for Chapter 7 bankruptcy. Although Chapter 7 is a liquidation of debts and Chapter 9 is a reorganization of debts, it suggests that individuals, like local governments, rush to bankruptcy without consideration for their financial future. Perhaps, all county and municipal public officials should be counseled as to prudent and sound financial practices before and during a financial emergency to preserve their future good financial health and avoid fiscal stress.

The authors recommend that the State of Alabama should follow the lead of those states that monitor local governments' financial condition and intervene when financial stress first appears. Bankruptcy, and the fiscal stress associated with it, impacts not only the local entity and its constituency, but also state government and the citizenry in general. For any local government experiencing fiscal stress, the citizen essentially bears the brunt of the fiscal stress either in an increased tax burden to offset higher debt and service expenditures combined with a loss or a reduction of government services.

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