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HARVARD UNIVERSITY PRESS

CAMBRIDGE, MASS., U. S. A.

HARVARD ECONOMIC STUDIES
VOLUME XLIX

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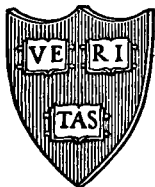
LONDON: HUMPHREY MILFORD
OXFORD UNIVERSITY PRESS

STATE CONTROL OF LOCAL FINANCE IN MASSACHUSETTS

BY

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CAMBRIDGE
HARVARD UNIVERSITY PRESS
1935

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PRINTED AT THE HARVARD UNIVERSITY PRESS
CAMBRIDGE, MASS., U. S. A.

To
MY WIFE

PREFACE

ORIGINALLY this study was submitted as a thesis for the doctorate at Harvard University in 1932. The subject treated has interest for both the public administrator and the scientific student of government finance. Events of the past few years have heightened that interest notably, for depressed economic conditions have aggravated local financial problems and to an increasing extent states are being compelled to give attention to ways of helping municipalities to deal with their financial difficulties. Accordingly, the long experience of a state that has developed an extensive system for regulating and supervising local financial administration has especial significance at this time. Therefore after thorough revision my findings concerning state control of local finance in Massachusetts are now offered in this form as a contribution (I hope) toward a better understanding by scholars and public officials alike of the problems and measures involved in central control of local financial affairs.

In my doctoral dissertation I included some material upon the policies and methods of other states in controlling local finance, and especially of selected states which have adopted extensive systems of regulation and supervision. It has seemed best, however, to reserve that material for inclusion in a more exhaustive study of state control of local finance throughout the United States which I am now preparing for separate publication.

This study deals with principles of control of local finance as they have been developed and applied in Massachusetts under varying economic and political conditions. Thus they have scientific and permanent value. During the past two or three years several emergency finance measures have been adopted by the commonwealth for helping the local communities to meet the unusual financial difficulties arising out of the depression. Some attention is paid to those measures in this study, but inasmuch as they are likely to be of a temporary nature and do not affect the fundamental principles of control, they are not treated extensively.

At the time of writing the main body of this study, final official statistics on municipal finances in Massachusetts were available only through the fiscal year 1932. In so far, therefore, as the study is based upon such material, it does not extend beyond that year, although reliable preliminary figures enabled me to carry my investigation somewhat farther at certain points. However, just before the book went to press, official data for 1933, and in part for 1934, became available. They reveal significant tendencies in municipal finance in Massachusetts during the past two years. These I have summarized in an addendum following the concluding chapter, thus bringing the work as nearly up to date as possible.

For help in this undertaking I owe most to Professor C. J. Bullock, not only for having pointed out to me the possibility of profitable investigation in this field and counselling me wisely as the study progressed, but also for having awakened my interest in public finance and for having given me the best of training, as a student, in the fundamentals of that subject. His instruction and criticism, always generously and kindly given, have been invaluable to me.

To other members of the faculty of Harvard University I am also deeply indebted. Without the warm encouragement of Professor H. H. Burbank I might never have undertaken the publication of this work; and Professor A. P. Usher has given freely of his time in helping me to put it through the press.

Both Mr. Henry F. Long, Commissioner of Corporations and Taxation, and Mr. Theodore N. Waddell, Director of Accounts, Department of Corporations and Taxation, of the Commonwealth of Massachusetts, have been of great service to me in various ways. As the administrative officials who have long been in direct charge of the Massachusetts system of control, they have helped me to gain an understanding of it that otherwise would have been impossible. They have also made available to me important documentary material. The late Mr. Edward H. Fenton, Deputy Director and Chief Accountant of the Division of Accounts of Massachusetts, aided me in a similar manner. I wish to assert emphatically, however, that in no sense are these officials

to be held responsible for the opinions or conclusions which I present in the following pages.

I wish also to acknowledge my indebtedness to Mr. Charles F. Gettemy of the Federal Reserve Bank of Boston. As former Director of the Bureau of Statistics of Massachusetts, in which capacity he played a very significant part in developing the present system of central control of local finance in the Commonwealth, and as an alumnus of Knox College, he placed at my ready disposal indispensable source material in the form of a gift to the college library of a complete file of Annual Reports on the Statistics of Municipal Finances of Massachusetts together with other documents and books.

As a trustee of Knox College and a cherished personal friend, Mrs. Philip Sidney Post has shown the deepest interest in this undertaking, and has done more to make publication possible than I can acknowledge publicly, out of respect for her genuine desire for self-effacement.

The painstaking care which Miss Abigail C. Strickland of Knox College bestowed upon the preparation of the manuscript in its final form is also especially deserving of my word of appreciation.

And finally, I would give utmost credit to my wife for all that she so willingly did and cheerfully bore to make this work a reality. Her contribution has been one of the greatest indeed.

R. S. VAN DE W.

GALESBURG, ILLINOIS
September, 1935

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**STATE CONTROL OF LOCAL FINANCE
IN MASSACHUSETTS**

L'expérience prouve que l'imprudence et l'entraînement, qui sont dans tous les pays du monde les traits caractéristiques de la gestion financière des localités, obligent l'État à une surveillance sérieuse et à un contrôle effectif sur l'administration locale.

—LEROY-BEAULIEU

Das allgemeine Aufsichtsrecht des Staates gegenüber der Gemeinde und Kommunalverbänden höherer Ordnung findet auf dem Gebiete des Finanzwesens eine besondere Anwendung. Sicherlich bedarf es hier auch der Aufsicht und Kontrolle, wenn die Zwecke der Allgemeinheit nicht leiden sollen. Denn der Staat besteht aus denselben Personen, aus denen die Gemeinden sich zusammensetzen, und eine unkluge und ausbeutende Finanzwirtschaft der Gemeinden schädigt auch das Finanzwesen des Staates.

—EHEBERG

Whatever be the safeguards that enlightened local opinion may provide through its examination of finance, there remains the absolute necessity for control and audit by external authority. . . . If local government is to be a reality there must be opportunity given for mistakes, and these mistakes will injuriously affect the taxpayers concerned. . . . The only adequate safeguard is a peremptory limitation of the sphere of local activity, coupled with such regulations as will provide against the more extreme forms of mismanagement. . . . There is here accordingly need for a special form of control, which may perhaps be called "political," as it is to be used at its discretion by the central power, which would, after inquiry, readjust the burdens incurred. — BASTABLE

INTRODUCTION

LOCAL governments derive their legal existence and their authority from the state. Although they are thereby vested with various powers over local affairs, the state is ultimately responsible for the effectiveness of all public administration within its borders. This responsibility is especially heavy in respect of matters of finance, for good financial management is a *sine qua non* of good local government, as, indeed, of all government. Hence the state may at times find it expedient or even imperative to supervise or control local finance, first, for the purpose of helping the local political units to administer their affairs in accordance with sound principles, and second, for the purpose of applying corrective measures if the local communities fail to conduct their finances in conformity with such principles.

In this country, isolated aspects of local finance have been regulated by states for a number of years, with varying degrees of stringency and success; but Massachusetts was a pioneer in developing a scientific and effective system of control¹ covering nearly all phases of municipal finance, and the system developed there has served as a model for several other states in formulating programs for dealing with local financial problems. Accordingly, the experience of that state has particular significance for students of public finance and for public administrators. The purpose of this study is to examine in detail the measures which have been adopted in Massachusetts for regulating and supervising the finances of the cities and towns of the commonwealth and to appraise the results of those measures.²

¹ "Control" as used in this study will be understood as referring to all of the various measures and practices of the central government for improving local financial administration, such as making investigations and advising as well as supervising local officials, and not merely to the statutory provisions relative to local finance or to the legal restrictions upon the local governments, as the term might imply.

² The system of control of "municipal" or "local" finance in Massachusetts applies to cities and towns and, in most respects, to fire, water, light, and improvement districts, and this study will be confined to those governmental units. No attention will be paid to the financial administration of either the Massachusetts Metropoli-

SCOPE OF STATE CONTROL

State regulation of local finance may vary widely in scope. It may embrace any or all of the following broad aspects of the subject: taxation, indebtedness, accounting and auditing, statistics, budgets, and expenditures. The central government may give assistance to local assessors and tax collectors through inspection and advice; it may actually prescribe assessment and collection procedure; or may even go so far as to appoint the local tax officials. In addition, the state may make provision for central review and equalization of local assessments.

Relative to local debt, state control may involve specifications and limitations as to purposes and lengths of time for which money may be borrowed, restrictions as to the amount of debt which may be incurred, and requirements — such as sinking fund or serial loan provisions — regarding the payment of debts at maturity.

Concerning accounting and auditing, control by the state may take the form of a requirement that municipalities adopt an adequate and uniform accounting system and that their accounts be audited periodically by state officials. This may be accompanied by the further provision that the state itself should prescribe a standard accounting system and that it should be installed under state supervision. On the other hand, the central government may go only so far as to volunteer its services to municipalities desiring assistance in installing approved accounting systems and in conducting audits.

Furthermore, the state may require the local governments to file with a central bureau, for publication, adequate and compara-

tan District or the counties, for although the expenditure of local funds is involved in the administration of these areas, they are not, strictly speaking, local political units exercising independence of jurisdiction in respect of finance. In the case of the Metropolitan District, which is a state agency performing local functions at local expense, the state authorizes the expenditures for the district and then assesses the costs upon the municipalities concerned; while the county is little more than an administrative district for purposes of state administration. For a treatment of the functions and financial administration of the Massachusetts Metropolitan District Commission see *The Government of Metropolitan Areas in the United States*, National Municipal League, New York, 1930.

ble statistics of local finances. Collection by the state of comprehensive, scientifically classified, uniform financial statistics, it may be noted, is fundamental to any sound system of control of local finance.

For the purpose of controlling local expenditures, the state may employ a variety of devices. It may set limits upon local tax rates or levies, thereby restricting amounts available for appropriations, or it may limit expenditures directly in accordance with some formula. Approaching the problem in another way, the central government may require the municipalities to conduct their financial affairs on a budget basis, and even specify and supervise budgetary procedure. Finally, taxpayers may be given the right to appeal all local bond issues and levies from the local authorities to a state board.

METHODS EMPLOYED IN CENTRAL CONTROL

Central governments may also employ various methods for regulating local financial affairs; namely, administrative, constitutional, or legislative. Mention should also be made of judicial control, which is possible through court decisions involving the legality of particular acts of local governments; although on account of its extremely limited scope this method is of little consequence.

Administrative control is exercised by state officials whose duty it is to carry out policies laid down by the legislature and who possess discretionary power within limits established by that body. France and Germany, notably, follow this practice, in conformity with the traditional Continental policy of confiding to central bureaus and officials wide powers over local communities.¹ This type of control approximates centralized administration. It has been employed only to a very limited extent in this country, principally because our legislatures are exceedingly jealous of their powers and also because of our traditional dislike of bureaucracy.

¹ See Grice, *National and Local Finance*, pp. 7-10, 118-128; Goodnow, *Municipal Government*, p. 116; Munro, *Governments of Europe*, Ch. 29, and *Government of European Cities*, pp. 56-60, 121-124, 173-174; Wallace, *State Administrative Supervision over Cities in the United States*, pp. 15, 17, 20-21, 35, 38; Bastable, *Public Finance*, p. 127.

Constitutional control, possible only when states have written constitutions, is secured by embodying regulatory and restrictive provisions in the organic law itself. Although open to serious objection on account of its inflexibility, this method has been frequently used in the United States for restricting local borrowing power. It was first resorted to by a considerable number of states in the seventies for the purpose of curbing the rapid growth of municipal debts which was then menacing cities throughout the country.¹

Finally, legislative control involves direct statutory regulation of and restrictions upon local financial powers and practices. This is the chief method that has been used in the United States and especially since experience demonstrated that the inflexibility of constitutional control was a serious weakness in that method of dealing with a problem which is constantly changing.

For the purpose of this study the method of control exemplified by England is of especial significance. There the intervention of the central government in the financial operations of the local authorities is of a dual nature, partly legislative and partly administrative, with, however, increasing emphasis being placed upon the administrative aspect.² As local financial problems become more complicated and technical, the services of experts are needed to an increasing extent for their solution. Such expert assistance is much more likely to be rendered by an administrative body than by the legislature or a legislative committee; hence there is reason to expect more administrative control in the future in this country. Massachusetts exemplifies that tendency, as will become evident in the course of this investigation.

CENTRAL CONTROL IN MASSACHUSETTS

The principal aspects of local finance subject to central control in Massachusetts are indebtedness, accounting and auditing, sta-

¹ See particularly H. Secrist, *An Economic Analysis of the Constitutional Restrictions upon Public Indebtedness in the United States*, Bulletin of the University of Wisconsin, No. 637, Economics and Political Science Series, Vol. 8, No. 1, Madison, 1914. See also L. Lancaster, *State Supervision of Municipal Indebtedness*, and article by same writer, "State Supervision of Local Indebtedness," *National Municipal Review*, Vol. XIII (1924), pp. 158-165.

² Ashley, *Local and Central Government*, p. 353; Wallace, *op. cit.*, p. 35.

tistics, the budget in cities, and, to a limited extent, taxation. Thus, borrowing for current purposes is prohibited; temporary borrowing in anticipation of revenue is carefully regulated; long-time loans are restricted as to purposes and lengths of time which they may run; a debt limit is established on the basis of property valuation; the use of serial bonds is required and sinking funds are prohibited; certification of town notes by a state authority is provided for; and, by the requirement that a small initial contribution be made out of revenue for permanent improvements, municipalities are prevented from financing such projects wholly by borrowing.

Furthermore, the program of control includes measures for promoting the adoption of a standard system of municipal accounting and for insuring the audit of municipal accounts by state officials; provisions for the collection and publication of uniform statistics of municipal finances; and requirements relative to budgets in cities. A certain amount of supervision over local assessment and tax collection is also exercised by the state tax commissioner; and a state board of tax appeals has been set up to deal with all appeals in tax matters, local as well as state. Local expenditures, however, have not been brought within the scope of state regulation, except indirectly through the control imposed upon other phases of local finance. At one time (1885 to 1913) efforts were made — practically without success — to curb expenditures of cities through limitations upon tax levies, but that form of control is now optional for all cities except Boston.¹

Finally, for the purpose of providing more supervision and control over the financial affairs of three cities — Boston, Lowell, and Fall River — than is secured through the foregoing methods, the commonwealth has created so-called finance commissions, the members of which are appointed by the central government and to which are assigned various degrees of power over local financial administration.² In the cases of Boston and Lowell, the commissions merely have power to investigate the financial management of the municipalities and to make recommendations to the city governments; whereas the Fall River board of finance has power

¹ See pp. 53, 54.

² See also emergency finance legislation of 1933, pp. 67-69.

to administer the financial affairs of the city. These special instruments of control were found to be necessary on account of the failure of general legislation and the ordinary methods of control to maintain sound financial conditions in those municipalities.

It should also be noted that on account of the particular financial problems with which Boston is confronted, its finances are in large part subject to special legislation and not to the general laws applicable to the other cities and towns of the commonwealth.¹

Massachusetts has never attempted to regulate local finance through constitutional provisions. Instead, she has relied upon legislation, together with a limited although increasing amount of administrative supervision. The legislation has been both general and special. In this study, attention will be directed chiefly to the general laws, for they alone embody the fundamental principles of control which the central government has pursued. For the most part, no consideration will be given to the numerous special acts which concern only particular communities and transactions, including the large volume of special legislation pertaining to Boston.

Responsibility for administering the system of state control of local finance in Massachusetts is placed upon the department of corporations and taxation, under the general supervision of the commissioner of corporations and taxation. Within that department two divisions share the specific tasks of administration — the division of local taxation and the division of accounts. The former division is immediately under the direction of the commissioner of corporations and taxation, whereas the latter is under the jurisdiction of the director of accounts, who, in turn, is directly responsible to the commissioner. For some years prior to 1919 the supervision of local finance, except with respect to taxation, was a duty of the bureau of statistics; but in that year the bureau was abolished² and all of its duties relative to municipal finance were transferred to the division of accounts in the department of corporations and taxation. The director of accounts then took over the functions of the director of the bureau of statistics

¹ See p. 56.

² Acts of 1919, Ch. 350, Secs. 25, 52, 54.

in so far as they concerned local finance. Both titles will be used in this study, depending upon the period under discussion, but it should be understood that they refer to essentially the same official.

Through the division of local taxation the commissioner of corporations and taxation exercises such supervision and control over local assessments and tax collections as the legislature authorizes and permits.¹ As the statutes now stand, his activities are confined largely to giving advice and making recommendations to the local tax officials. The director of accounts has general jurisdiction over all of the other aspects of local finance for which measures of control have been devised. That official, it is significant to observe, not only performs the specific duties laid upon him by statutes, but also exercises a considerable amount of administrative authority in connection with the installation of municipal accounting systems and auditing of municipal accounts, the collection and publication of statistics of municipal finances, and the certification of town and district notes. He is also able to give local officials a great deal of valuable advice and assistance regarding all phases of local financial administration. To that extent the Massachusetts system of control approximates the dual nature of the English system previously mentioned.

The program of central control of local finance in Massachusetts was by no means formulated as a whole at one time. It is, rather, the product of over a half century of growth and experience. Begun in a small way with limitations upon indebtedness, it has been gradually extended as occasion warranted and public opinion permitted. And it should be noted especially that it has been necessary throughout to reckon with the unusually strong spirit of local autonomy which is associated with the predominant form of local government in the commonwealth, namely, the town. Our subject, therefore, will be treated historically as well as analytically.

¹ Gen. Laws, Chs. 58-60.

CHAPTER I

BEGINNINGS OF STATE CONTROL

STATE control of local finance in Massachusetts, looked upon as a definite policy of the commonwealth for bringing the financial practices of the local communities into conformity with sound principles, was inaugurated in 1875, with the passage of an act limiting municipal indebtedness.¹ Since that time, an extensive system of regulation and supervision of the financial affairs of the cities and towns of the state has been gradually built up, so that nearly all phases of local finance are now subject to some degree of centralized control.

The program of control that has been evolved in Massachusetts since 1875 cannot be properly understood, however, apart from the origin and development of local government in the commonwealth and of the local financial powers and practices, or from the historical relationship of the central government to the local political units. Adequate treatment demands, therefore, that we begin our investigation with the colonial period.

In the first place, it is in the earliest years of the colony that we find the origin and evolution of the local political institutions and of the local financial powers and practices which are so important in their bearing upon the later efforts of the state to regulate the financial affairs of the cities and towns. Furthermore, very soon after the founding of the colony a relationship was established between the central and the local governments concerning financial administration which, although it involved virtually no control on the part of the central authorities, is nevertheless of great significance for our purpose in that, after two and a half centuries, it developed into the movement which is the main subject of this study and at the same time profoundly influenced the character of that movement. Finally, the present extensive system of state regulation of local finance is in large part an outgrowth of the

¹ Acts of 1875, Ch. 209.

revolution in economic and social conditions which took place in the nineteenth century, and which brought so great an increase in the financial problems of the municipalities that it became imperative for the central government to assist in their solution. Hence it is especially important that attention be paid to these changes.

This chapter, accordingly, will be devoted to a presentation of the requisite historical background.¹ The beginnings of local government in Massachusetts and of local financial powers and practices will be considered first.

ORIGIN OF LOCAL FINANCIAL POWERS

Local government in Massachusetts in its primary form, i.e. the town system, was established in the early days of the colony under conditions highly favorable to a large degree of autonomy.² Lacking an assignment of specific functions by the general court,³ the first towns immediately upon their establishment began to exercise powers necessary for dealing with the various local affairs.⁴ The powers thus spontaneously assumed by the towns — including, of course, the power to raise and appropriate money — were formally recognized as early as 1636 by an ordinance of the general court reading as follows:

Whereas particular towns have many things which concerne onely themselves, & the ordering of their affaires, and disposing of business in their owne towne, it is therefore ordered that the freemen of every towne, . . . shall onely have power to . . . make such orders as may concerne the well

¹ For valuable guidance in the preparation of this chapter I am indebted to the comprehensive study of the Massachusetts town by J. F. Sly, entitled *Town Government in Massachusetts*.

² See Channing, *Town and County Government*, pp. 7-11, 26-28, 53-57, *History of United States*, Vol. I, pp. 421-427; Osgood, *The American Colonies in the Seventeenth Century*, Vol. I, pp. 424, 436, and Vol. II, pp. 437-441; Davis, *Corporations in the Days of the Colony*, p. 12; Goodnow, *The Principles of the Administrative Law of the United States*, p. 164. Channing, especially, discusses the English background and influences which contributed to the strong spirit of local government in the colony.

³ Adams and others, *Genesis of Mass. Towns*, p. 61; Davis, *op. cit.*, p. 14. "General Court" has been the official designation of the Massachusetts legislature from the colonial period to the present.

⁴ See *Hill vs. Boston*, 122 Mass., 349; *Commonwealth vs. the City of Roxbury*, 9 Grey, Mass., 485; Adams and others, *op. cit.*, pp. 49-51, 64, 65, 93; Sly, p. 72.

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ordering of their owne townes, not repugnant to the lawes and orders here established by the Generall Court.¹

Thus at the outset the foundation was laid for an unusually strong tradition of local self-government and of autonomy in financial administration. This tradition has ever since exerted a dominant influence upon the political and social life of the commonwealth.

Administration of town finances was at first extremely simple and, judged by present-day standards, almost haphazard. No regular method was employed for levying town taxes; neither was there a system for estimating the annual fiscal needs of the communities.

On the contrary, when the citizens of the town realized that money was needed for its running expenses or for any purpose whatsoever, they assembled in the town meeting, discussed the need for money, decided whether the need should be met, and if so, how much money would be required, and ordered the amount raised for that specific purpose and expended for that purpose only.²

In time, however, it became customary to abolish special rates, and to levy but one rate to cover the estimated annual town charges.³

But frequent meeting of the freemen for the conduct of town affairs soon proved to be impracticable; hence "selectmen" were elected to manage the "prudentiall affairs" of the towns.⁴ Supreme control was still retained by the freemen,⁵ but the selectmen soon became the most important town officials, and from that time to the present the functions of town government have been chiefly discharged by them.⁶ This administrative change is of particular significance for our study, for it involved placing upon

¹ Mass. Col. Records, Vol. I, p. 172. The implication of restriction in the statement that "the freemen of every towne shall *onely* have power" was removed in 1641 by the omission of "onely." See Body of Liberties, 1641, No. 66r.

² MacLear, *Early New England Towns*, p. 55.

³ *Ibid.*, pp. 57, 58.

⁴ Garland, *Mass. Town Law*, pp. 1, 2; Channing, *Town and County Government*, p. 57.

⁵ See the Body of Liberties, 1641. For example, this document provided specifically that no expenditure could be made out of the town treasury except by the freemen of the township. See also Howard, *An Introduction to the Local Constitutional History of the United States*, pp. 62-64.

⁶ Howard, *op. cit.*, p. 78; Deming, *The Government of American Cities*, p. 101.

the selectmen large responsibility for local financial administration, responsibility which is still borne by them in the case of township government in its pure form. As one writer expresses it:

The entire financial administration was vested in them. Thus they could make or assess the rates of the town, county, or country, general or special, authorize the constable to collect them; audit his account of disbursements, as also those of the town treasurer; and act as a board of equalization of taxes.¹

Within a few years, therefore, after the planting of the colony, local government in Massachusetts had developed its basic institutions and acquired broad powers in respect of financial affairs. For the most part, these institutions and financial powers have persisted without fundamental change down to the present time and, as will become evident later in this study, they have strongly influenced the methods and policy of the central government in dealing with problems of local finance.

EARLY RELATIONSHIP OF CENTRAL GOVERNMENT TO LOCAL FINANCIAL ADMINISTRATION

Turning now to the relationship of the central government to the towns in matters of finance, we find that the only aspect of local financial administration that engaged the attention of the general court to any extent under the colony was taxation. But even the slight amount of intervention on the part of the colonial government in local tax administration that took place in the early years was merely incidental to orders of the general court concerning colonial and county levies, and did not represent direct regulation or control of local taxation. In a later chapter of this study, the origin and growth of the system of local taxation in Massachusetts, and the relationship of the central government to it, will be treated at some length. Here it will suffice to present only the following conclusions of an investigator who has explored thoroughly the tax system of Massachusetts in the colonial period.²

¹ Howard, *op. cit.*, p. 79.

² E. E. Day, whose unpublished work entitled, *The History of the General Property Tax in Massachusetts prior to 1690*, is available in the Harvard University Library.

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As regards taxation in the very first years of the colony, we are informed that

the general court passed no requirements as to the character of local methods or practices. If the towns returned to the colonial treasury the levies allotted to them, the general court was content to permit the towns to raise those sums in any manner they saw fit to adopt. Town rates were an independent growth, in no wise related to the orders of the general court.

Excepting a few orders which required taxation on the basis of the entire ability of the taxpayer, affirmed the power of the local units to tax all inhabitants, and defined in a general way the situs of property for the purposes of taxation, the general court, until 1646, was content to allow the towns independence in all matters of assessment. . . . The laws from 1646 to 1657 fully regulated the methods and scope of the colonial and county levies; they had little to do with local taxation. The latter, however much influenced by the orders of the general court concerning colonial rates, remained, as it was before 1646, almost entirely free from regulation by the colonial legislature. This local autonomy . . . persisted without important change until 1690.

One important feature of the colonial system was the independence of the towns in matters of local taxation. . . . The colony exercised little control over local taxation during the seventeenth century. . . . Local taxation under the colonial system was practically left to the town authorities. . . . The influence which the colonial laws had upon local methods was largely one of example.¹

During the interval between the first and the second charters (i.e. from 1684 to 1691), although Massachusetts was relegated to the status of a crown colony, local financial procedure was allowed to continue practically as it had been under the colonial government. In but two minor respects was a change effected during these years. In 1686 Governor Dudley directed that all town assessments and collections, and all appropriations voted in town meetings, be submitted for approval either to two justices of the peace or to a member of the governor's council.² And under Governor Andros town rates for the support of the ministry were forbidden from 1686 — a reversion to the earlier system of voluntary contributions by the more faithful church members.³

Aside, therefore, from the limited regulations relative to taxation, when the seventeenth century is surveyed as a whole, it is found that the local communities were left singularly free to man-

¹ Day, *op. cit.*, pp. 20, 40, 43, 58, 103.

² Sly, *op. cit.*, pp. 77, 78.

³ Day, *op. cit.*, p. 101.

age their financial affairs as they chose. Consideration will now be given to developments under the provincial government.

It has been noted that the first general statute regarding the powers of towns was enacted in 1636. This continued in force until the revocation of the first charter in 1684. Its successor under the second charter, which established the provincial government, was enacted by the general court in 1692.¹ In its fundamental features it differed little from the earlier act, and with respect to local finance it but confirmed and elaborated somewhat the accepted practices. Towns were authorized to vote the money "for the maintenance and support of the ministry, schools, the poor, and for the defraying of other necessary charges arising within the said town," and power was conferred upon the townsmen or upon their representatives, the selectmen, to raise the necessary amounts by assessment upon the inhabitants and other residents.²

This general statute was supplemented in the following year by an act which directed each town to choose annually "a suitable person for town treasurer," whose duty it should be to handle all town receipts and payments, and who should also have power to take legal action, if necessary, to compel the payment of sums due the town. All treasurers so chosen were required to make an annual accounting to their respective towns.³

Mention should be made at this point of a tendency in local tax administration which led the provincial government, toward the end of the seventeenth century, to take the first step in the direction of centralized tax administration. It was only natural that the extreme decentralization of the colonial tax system and the almost complete autonomy enjoyed by the towns in matters of taxation should produce wide diversity in local tax methods and practices. As a consequence, with the increase in the tax burden which took place during the course of the century, undervaluation began to appear in property assessments. Inasmuch as the direct tax for provincial purposes was levied on the basis of the local assessments, undervaluation produced inequalities in the

¹ Acts of 1692/3, Ch. 28.

² *Ibid.*, Secs. 5, 6.

³ Acts of 1693/4, Ch. 20, Sec. 18.

distribution of the tax burden. In 1694, therefore, provincial equalization was begun by an act of the general court creating a legislative committee to review assessments and correct the tax roll. Professor Lutz refers to this as the first stage in the evolution of centralized tax administration. Revaluation and equalization were carried on by legislative committees at irregular intervals during the whole period of the provincial government.¹ Beyond this, however, the central government did not go; and local governments were still allowed virtually complete freedom in tax administration.

Not until the period of the Revolution did the central government again find it necessary to enact legislation relative to local finance. Then, the exigencies of the time led to the passage of two enabling acts regarding the expenditure of money. One authorized towns to vote funds for carrying on the war and for the encouragement of townsmen to engage in the military service of the country;² the other permitted them to raise money to provide for the poor, and to care for the families of soldiers.³

As in the case of the transition from the colony to the province nearly a century before, so the transition from the province to the commonwealth brought no limitation of the powers of local government and consequently no curtailment of the large degree of autonomy with respect to their financial affairs which the towns had previously possessed.⁴ These powers were confirmed by an early act of the commonwealth government, which replaced the act of 1692, as the latter had replaced that of 1636.⁵ In familiar terms this act entrusted to the towns the management of their "prudentiall affairs" and empowered them to exercise such functions as they might judge "most conducive to peace, welfare and good order," and to vote "such sum or sums of money, as they shall judge necessary for the settlement, maintenance and support of the ministry, school, the poor, and other necessary charges."

¹ Lutz, *The State Tax Commission*, pp. 19, 214, 223-224. See also Day, *op. cit.*, pp. 51, 56, 75.

² Acts of 1776/7, Ch. 41.

³ Acts of 1777/8, Ch. 20.

⁴ Cushing, *History of the Transition from Provincial to Commonwealth Government in Mass.*, pp. 74-76, 187-190; Sly, *op. cit.*, pp. 99-100.

⁵ Acts of 1785, Ch. 75.

Thus, after a century and a half from the time of its establishment, local government in Massachusetts still enjoyed the broadest financial powers; and the central government displayed little intention of encroaching upon them.

ECONOMIC AND SOCIAL CHANGES IN THE NINETEENTH CENTURY

At this point in our study it becomes necessary to take account of marked changes which appeared in the economic and social life of Massachusetts in the nineteenth century as accompaniments of industrialism, and of the effects of those changes upon local political institutions and practices and upon the relationship of the central to the local governments, particularly with respect to their financial problems.

Economic and social conditions in Massachusetts in the nineteenth century presented, in general, a marked contrast to those of the seventeenth and eighteenth, and created new problems for local governments and aggravated old ones. For the most part, the towns of the seventeenth and eighteenth centuries were simple farming communities, containing many small freeholders and but few large ones. They were democratically organized; a considerable degree of social and political equality prevailed.¹ Even up to as late as 1820 the growth of the towns in Massachusetts had been on the whole, a well-balanced development avoiding undue concentration and requiring few political alterations. Local government could still be described in language that would have been quite applicable a hundred years before. . . . The vital, daily interests of the people were still bound by the geographic area of the community.²

Under conditions such as these the town had by the nineteenth century attained its greatest prominence as a political institution, and the town meeting had reached its highest point of development. So vigorous had the town become, that De Tocqueville pointed to it as "a strong and free social body" possessing "two advantages which infallibly secure the attentive interest of mankind, namely, independence and authority."³

¹ Osgood, *op. cit.*, Vol. I, p. 445.

² Sly, *op. cit.*, pp. 105, 107.

³ De Tocqueville, *Democracy in America*, Vol. I, p. 68.

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But with the advent of industrialism, and of the attendant improvements in communication and transportation, people turned definitely away from rural activities and began to congregate in the manufacturing centers. Thus, from 1820 to 1840, the population of 88 manufacturing and commercial towns increased approximately 79 per cent, while 213 agricultural towns showed a population increase of only 8.5 per cent during the same period.¹ The decline in the small towns was pronounced after about 1860, whereas the cities grew steadily and at a rapid rate. In 1790 less than 5 per cent of the population lived in cities or towns of over 12,000; by 1855 the number had increased to 40 per cent, and in 1895 it was 65 per cent.² The pronounced movement to the cities and larger towns throughout the century is clearly shown by the following table:³

Year	Number of Cities and Towns of more than 12,000 Inhabitants	Percentage of Total Population in Cities and Towns of more than 12,000 Inhabitants
1790	1	4.8
1800	1	5.8
1810	2	9.8
1820	2	10.7
1830	2	12.3
1840	4	19.1
1855	14	36.0
1865	15	39.8
1875	19	50.6
1885	27	59.2
1895	32	65.6

The industrialization of Massachusetts was accompanied not only by concentration in certain areas but also by a general growth of population and especially in the number of foreign born. The latter were unfamiliar with the institutions under which they had come to live, and were therefore unprepared to take part intelligently in the social and political life of the communities in which they found themselves. Unfortunately, there

¹ Chickering, *A Statistical View of the Population of Mass. from 1765 to 1840*, p. 49.

² H. G. Wadlin, "The Growth of Cities in Massachusetts," *American Statistical Association Publications*, Vol. II (1891), p. 166; cited in Whitten, *Public Administration in Mass.*, p. 15.

³ Whitten, *op. cit.*, p. 16.

was also a growing tendency on the part of the more intelligent and prosperous of the native population to shirk their public responsibilities and to leave municipal affairs to others more willing but less able to conduct them.¹

These changes which accompanied industrialization put a tremendous strain upon the traditional forms of local government. In the areas of concentrated population, town meetings grew to unwieldy size, and it became increasingly difficult to take deliberate, intelligent action upon the new municipal problems.² Furthermore, townsmen lacked the requisite skill and experience for dealing adequately with the large and complicated problems of financial administration which now appeared. The following statement by Charles Francis Adams apropos the change in the character of the town meeting may contain a certain amount of unnecessary lament for "the old order," but it is nevertheless significant.

It was a change also for the worse. The old order of things was doubtless slow, conservative, traditional; but it was economical, simple and business-like. The new order of things was in all respects the reverse. The leaders in it prided themselves on their enterprise, their lack of reverence for tradition, their confidence in themselves; but they were noisy, unmethodical, in reality incompetent, and much too often intemperate. Accordingly, neither the business record nor the moral record of the town was now creditable.³

The early experience of Boston under the new conditions is typical of the difficulties confronting town administration. There it was found impossible for the inhabitants to exercise the usual control over town officers. Financial control was often in the hands of the selectmen and various members of departments, and appropriations and taxes were voted at town meetings in which members of the committee on finance made up the majority of the members present. Town meetings voted taxes without giving careful consideration to the purposes for which the money was to be expended.⁴ In Lowell, to cite another town which experienced difficulty, an investigating committee found "The old story of

¹ Garland, *New England Town Law*, p. 10.

² Dodd, *State Government*, pp. 363, 364; Garland, *Mass. Town Law*, p. 2.

³ C. F. Adams, *Mass. History*, Vol. II, p. 949.

⁴ Quincy, *A Municipal History of the Town and City of Boston*, pp. 28-29. Sly, *op. cit.*, pp. 112, 116.

‘want of executive power and the loose and irresponsible manner in which money is granted and expended for municipal purposes.’”¹

Abandonment of the town meeting and incorporation as a city was a remedy prescribed early in the century for coping with the situation. The argument for this proposal was succinctly stated in the following words of Mr. Lemuel Shaw, addressed to the convention assembled in 1820 to revise the constitution of Massachusetts:

The Constitution as it now stands requires a form of town government not adapted to the conditions of a populous town. . . . The remedy is to authorize an organization adapted to the condition of a numerous people—an organization that will permit the inhabitants to choose representatives who should meet for the purpose of deliberation, instead of the whole body.²

This statement also reveals the characteristic distinction between a town organization and that of a city, viz., in the town all the qualified inhabitants meet, deliberate, and vote upon matters within their province, whereas under a city government those functions are performed by representatives.³

This proposal was embodied in an amendment to the Constitution in 1820, which allowed towns having a population of at least 12,000 to become incorporated as cities.⁴ To date 39 communities, containing 70 per cent of the population, have accepted incorporation as cities under this amendment. It should be noted, however, that incorporation did not free the community from application of legislative regulations of towns, except in so far as the town acts were inconsistent with the general or special acts relating to the cities.⁵

¹ Sly, *op. cit.*, p. 116.

² Journal of Constitutional Convention, 1821, p. 98.

³ On this point see George W. Warren and others *vs.* Mayor and Aldermen of Charlestown, 2 Grey, Mass., 84; Hill *vs.* Boston, 122 Mass., 344; Dillon, p. 42.

⁴ Constitution of Massachusetts, Articles of Amendment, Art. 2.

⁵ See Revised Statutes of Mass., 1836, Ch. 2, Sec. 6, and General Statutes of Mass., 1860, Ch. 19, Sec. 2. In late years, particularly since 1900, towns have experimented with other plans for the improvement of their administration. The limited or representative town meeting, the town manager plan, the consolidation of town departments, and the appointment of town finance committees, are devices which have been adopted in some towns in an effort to avoid the financial and other evils of township government in its pure form. See Sly, *op. cit.*, Chs. 7, 8, for a brief survey and appraisal of these experiments.

In addition to this shift away from the older form of local government in Massachusetts, the transformations in the economic and social structure during the nineteenth century were accompanied by a noticeable change in the relationship of the central to the local governments. This change took the form of a marked increase of intervention in and control of local affairs by the commonwealth; also of a pronounced tendency for the authority of local government to become that of enumerated instead of general powers. The enlarged needs and responsibilities of the cities and towns under modern conditions called forth an expanding volume of legislation relative to local duties and functions. Furthermore, the growing complexity and magnitude of the problems of local government made it imperative for the state to assist in their solution. To an increasing extent, therefore, the central government found it necessary to regulate and supervise local affairs.

There were at least two reasons for this change. In the first place, extension of the activity of the central government into the field of supervision and control of local affairs was inevitable in view of the enlarged needs and responsibilities of the latter which came with a growing population and modern conditions. To help it in meeting new demands and more difficult problems, local government required the assistance of the state.

The other reason is more deep-seated and may be looked upon as an accompaniment of the tendency toward administrative decentralization in Massachusetts which began even in the early colonial period.¹ As time went on and the duties of the central government grew, central administration became difficult; hence towns were utilized to an increasing extent in the administration of general laws. However, since the general court wished to retain control over its functions now being exercised to a greater extent locally, the tendency toward decentralized administration was accompanied by a growing mass of legislation concerning the duties and functions of the local governments and their officials. In short, local government in Massachusetts became more and more a party at interest in general public administration, and as a con-

¹ Channing, *Town and County Government*, pp. 34, 35.

sequence found itself subjected to a mounting volume of legislation. This became most pronounced after the middle of the nineteenth century.¹

GROWTH OF STATE REGULATION

For our purpose the important aspect of the growing tendency of the central government to intervene in local affairs was the increase of state activity in the sphere of local finance. At first this activity was confined to measures which merely authorized the expenditure of money by the local communities; later it was extended to include actual control over their financial practices.

We find that from the early years of the nineteenth century there was a gradually increasing output of legislation enumerating the specific purposes for which towns were either required or permitted to expend money. The nature of this legislation prior to 1875 is indicated by the array of items involving expenditures shown below.² A number of other town functions, mandatory or permissive, calling for the expenditure of money, were specified in legislative acts of this period.³

It should be noted that the foregoing were general statutes. In addition, the legislature passed a large number of special acts authorizing the expenditure of money by individual towns for particular purposes. These acts became especially numerous after

¹ Whitten, *op. cit.*, p. 13; Garland, *New England Town Law*, pp. 16, 17; H. N. Shepard, "The Thralldom of Massachusetts Cities," *National Municipal Review*, Vol. I (1912), p. 182; Dodd, *op. cit.*, p. 364.

² Bounties for encouraging the destruction of noxious animals (Acts of 1817, Ch. 144); support of town schools (Acts of 1827, Ch. 147); writing and publishing of town histories (Acts of 1854, Ch. 429); encouragement of enlistment in the military service (Acts of 1864, Ch. 103); erecting headstones and monuments in memory of soldiers and sailors who served in the war of rebellion and for the care of their graves (Acts of 1864, Ch. 100; 1870, Ch. 169); conveyance of pupils to and from public schools (Acts of 1869, Ch. 132); encouragement of the planting of shade trees upon the public squares or highways (Acts of 1869, Ch. 381); procuring the detection and apprehension of persons committing any felony (Acts of 1869, Ch. 206); maintenance of public baths and wash-houses and open bathing places (Acts of 1869, Ch. 381; 1874, Ch. 214); purchase of water or water rights from any other municipality or corporation (Acts of 1870, Ch. 93); maintenance of public libraries and reading rooms (Acts of 1872, Ch. 217; 1873, Ch. 306); celebrating centennial anniversaries of the incorporation of towns and publishing the proceedings of any such celebration (Acts of 1874, Ch. 112).

³ Public Statutes of 1881, Ch. 27, Secs. 32-51.

1860, and frequently permitted borrowing by the towns to meet the expenditures. Special acts authorizing borrowing for refunding purposes also became common.

By about 1870, however, the central government began actually to control local finance, in the sense of placing limitations upon the taxing and borrowing powers of cities and towns and of stipulating with respect to interest on loans and repayment of debt. This marks the beginning of state control of local finance in the strict sense of the term, which became so important after 1875.

One of the first acts of this nature was passed in 1869. It authorized towns to vote money to encourage the planting of shade trees, but only in an amount for each town "not exceeding twenty-five cents for each of its rateable polls in the preceding year."¹ In 1870, when cities and towns were authorized to borrow money for the purchase of water rights from any private or municipal corporation and to lay the necessary pipes and install connections, the whole amount of bonds which might be issued for the purpose by any municipality was limited to ten per cent of its last preceding valuation. Further, the maximum rate of interest was fixed at seven per cent, semi-annual interest payments were stipulated, and redemption within twenty years was ordered. All money received by the municipality from sales of water under the act was to be applied to the payment of the water debt.²

Another statute a year later permitted towns to raise money by taxation for the celebration of centennial anniversaries, but only a sum in each case "not exceeding one-tenth of one per cent of its assessed valuation for the year last preceding."³ The numerous special acts which authorized individual towns to borrow for specified purposes limited definitely the amounts of such loans, and frequently carried provisions as to rates of interest and sinking fund requirements.

Several isolated and comparatively unimportant acts of this period relative to certain other aspects of local finance should also be noted. One, enacted in 1855, sought to insure good manage-

¹ Acts of 1869, Ch. 381, Sec. 12.

² Acts of 1870, Ch. 93; 1873, Ch. 255.

³ Acts of 1874, Ch. 112.

ment of municipal trust funds by directing the trustees of such funds to "make an annual exhibit of the condition of such funds to the board of aldermen of the city, or the selectmen of the town," and by charging the aldermen or selectmen with the inspection of all transactions concerning such funds. In the case of incompetency of trustees, the judge of probate for the county might remove them and fill the vacancies by appointment.¹ This act is of some interest in the light of later revelations of mismanagement of trust funds.² Another passed in 1866, required towns to deposit with the state librarian their annual or any special reports relating to income and expenditures.³ This foreshadowed an important element in the later policy of control.⁴ A third act, passed in 1873, empowered cities and towns to charge interest on all taxes remaining unpaid after a certain time, not to exceed, however, one per cent per month.⁵

At this point reference should be made to action taken by the central government during the Civil War period which marked the second stage in the development of state administration of taxation.⁶ It will be recalled that provision by the provincial government for review and equalization of assessments constituted the first stage.

A system of direct taxation upon property, supplemented by a tax upon incomes and polls, had been definitely established in the colony by an act of 1646, and "up to 1862 Massachusetts made no fundamental departure from the general property tax; and except for comparatively unimportant exemptions, all property was subject to local taxation."⁷ But in 1862 an act was passed exempting from taxation deposits in savings banks, substituting therefor an excise tax upon the banks themselves.⁸ And in 1864 a radical change was introduced into the tax system of the commonwealth by the enactment of a general corporation tax law, which provided for a tax on "corporate excess," i.e. the amount by which the value of the capital stock exceeded the value of the real estate

¹ Acts of 1855, Ch. 302.

² Acts of 1866, Ch. 195.

³ Acts of 1873, Ch. 225.

⁴ Bullock, *Taxation in Mass.*, pp. 1, 2, 9.

⁵ Acts of 1862, Ch. 224. Bullock, *op. cit.*, p. 9.

⁶ See pp. 40, 41.

⁷ See Ch. V.

⁸ Lutz, *op. cit.*, pp. 214-215.

and machinery locally assessed.¹ For our purpose this act was significant in that it placed the administration of the new tax in the hands of the central government. To this end the office of state tax commissioner was created. The state now dealt directly with corporations, and stockholders were exempted from local taxation, although corporate real estate and machinery remained subject to local taxation.

It is clear, however, that in spite of the enactment of a considerable number of isolated statutes touching local finance, the state had not as yet developed a comprehensive program for controlling the financial practices of the cities and towns. Local governments were still almost wholly free to raise and expend money, incur debts, and in general to manage their financial affairs as they chose. Moreover, they possessed an unusually strong tradition of self-government, running back, as we have seen, over a period of nearly two and a half centuries. As will become apparent in later chapters of this study, this tradition has had to be reckoned with by the central government in formulating its policy for dealing with the problems of local finance.

At the same time, the need for closer regulation by the state of the financial affairs of the local communities was becoming increasingly apparent. We shall now turn to a consideration of the different ways in which this need manifested itself and of the various measures of control which have been adopted by the commonwealth from time to time in attempting to meet it.

¹ Acts of 1864, Ch. 208. Bullock, *op. cit.*, p. 14.

CHAPTER II

LIMITATION OF INDEBTEDNESS AND OF TAX LEVIES 1875 TO 1913

THE DEBT SITUATION PRIOR TO 1875

THE particular aspect of local finance in Massachusetts which occasioned serious concern in the years immediately preceding 1875, and which led to the first step in the program of state control of local financial practices, was the rapid growth of debt. The tendency of debt to mount rapidly was in large part a reflection of the municipal extravagances of the period following the Civil War. In order to provide funds for meeting greatly enlarged expenditures, local officials, far more interested in keeping down the tax rate than in sound financial policies, resorted to borrowing altogether too frequently, not only to pay for permanent improvements but also to meet current expenses. The refunding of old debts was also not uncommon.¹ These methods of financing were clearly unsound; but inasmuch as they brought no increase for a time in the annual tax burden other than the amounts necessary to meet interest payments, which at first were comparatively small, it was tolerated by the taxpayers. In brief, the financial future of many, if not of most, of the Massachusetts municipalities was allowed to take care of itself, a policy which resulted in constantly increasing interest charges and formidable local debts.

The facts regarding the growth of debt in the decade prior to 1875 are revealed in the following table:

DEBT AND VALUATION OF CITIES AND TOWNS IN MASSACHUSETTS¹

Year	Aggregate Net Debt	Aggregate Valuation	Ratio of Debt to Valuation
1865	\$26,137,234	\$996,841,901	2.6
1871	39,421,298	1,497,351,686	2.6
1872	45,221,745	1,696,599,969	2.6
1873	53,380,118	1,763,429,990	3.0
1874	64,904,069	1,831,601,165	3.5
1875	71,784,006	1,840,792,728	3.8

(1) Figures for 1865 were obtained from House Doc. 12 (1868), pp. 6, 31; for the years 1871-1875, from Mass. Tax Commissioner's Report, 1910, p. 16.

¹ House Doc. 2168 (1912), pp. 7, 8.

These figures indicate that the net debt (i.e. gross debt less the amounts accumulated in sinking funds) of the municipalities advanced by the amount of \$45,646,772, or about 175 per cent, from 1865 to 1875. Of the indebtedness as it stood in 1865, the municipalities reported \$13,010,867, or about one-half, as having been incurred for soldiers' bounties, recruiting expenses, etc., during the Civil War.¹ It might have been expected, therefore, that the post-war years would bring a decline in local debts; instead, the statistics reveal a persistent increase. In these years, population gained approximately 30 per cent, while the state debt showed an increase of only about 29 per cent.²

Clearly the indebtedness of the cities and towns was expanding at a startling and even dangerous rate. On this point, Professor Bullock has written, "A sinister feature of the situation was the unprecedented growth of local debts."³ It is of interest to note, however, that the upward trend of municipal indebtedness was not confined to Massachusetts; in many parts of the country local debts and taxation had increased rapidly.⁴

Mitigating factors in the situation prior to 1873 were the high level of business activity and the marked increase in real estate values. When business generally is flourishing, protest against mounting public expenditures and public debts is likely to be relatively feeble; and the growth of property valuation helps to keep down the rate of taxation and thus to temper somewhat the attitude of the taxpayer toward the absolute increase in the tax burden. Now the average annual increase in valuation from 1865 to 1873 was approximately ninety-five millions. The gain for 1872 was unusually large — \$199,248,283, or more than double the average gain for the decade. The increase of valuation during these years kept pace with the growth of debt; consequently, the debt ratio remained unchanged.

The crisis of 1873 brought a sharp check to the rapid advance of valuation. In 1875 the gain for the year was only \$9,191,563, less

¹ House Doc. 12 (1868), p. 5.

² Senate Doc. 1 (1876), pp. 15, 16.

³ Bullock, *Finances of Mass.*, p. 78.

⁴ Bullock, *Address at Conference of Municipal Accounting Officers*, p. 20, and *Finances of Mass.*, p. 78. See also H. C. Adams, *Finance*, pp. 96, 97, and *Public Debts*, pp. 343, 346.

than 5 per cent of the growth from 1871 to 1872. As a result, the debt ratio moved sharply upward. It stood at 3.8 in 1875. With the reversal in business activity and prosperity, and the slowing down of the rate of increase in valuation, the heavy debts and high taxes came to be looked upon as intolerable burdens.

THE MUNICIPAL INDEBTEDNESS ACT OF 1875

By 1875 the situation had become so acute and popular complaint so strong that the legislature determined to attempt to check the rapidity with which the municipalities of the commonwealth were incurring debt. Accordingly, it passed "An Act to Regulate and Limit Municipal Indebtedness."¹ By this statute, limits were placed upon the length of time for which debts might be incurred, restrictions were placed on the amount that might be borrowed, and a definite method for the payment of maturing debt was prescribed. The specific evils which the legislature sought to remedy by these provisions were: (1) the creation by cities and towns of funded debts through loans made in anticipation of taxes or for other temporary purposes; (2) excessive borrowing for permanent improvements; and (3) the common failure to make provisions for the payment of debt at maturity.² We shall now consider in detail the provisions of the act of 1875.

In placing limits upon the length of time for which municipalities might borrow, the legislature distinguished between "temporary" and "other loans." Thus, temporary loans might be made by any city and town in anticipation of the taxes of the year in which such debts were incurred, and of the year next ensuing, but they were expressly made payable from the taxes in anticipation of which they were issued.³ All other debts were made "payable within a period not exceeding ten years from the time of contracting the same."⁴ Exceptions were made for "debts incurred in constructing general sewers," which were made "payable at a period not exceeding twenty years from the time of

¹ Acts of 1875, Ch. 209.

² House Doc. 2168 (1912), p. 8.

³ Acts of 1875, Ch. 209, Sec. 2. The clause, "and of the year next ensuing," was struck out in 1885. Acts of 1885, Ch. 312, Sec. 4.

⁴ Acts of 1875, Ch. 209, Sec. 4.

contracting the same," and for "debts incurred in supplying the inhabitants with pure water," which were made "payable at a period not exceeding thirty years from the date of contracting the same."¹

The amount of debt that might be incurred for other than temporary purposes was restricted by the provision that "no city or town shall become indebted to an amount (including existing indebtedness) exceeding in the aggregate three per cent on the valuation of the taxable property therein," to be ascertained by the last preceding city or town valuation for the assessment of taxes.² Debts created for supplying inhabitants with pure water and in aid of railroad corporations were exempt from the limitations thus established.³

The establishment of sinking funds was made obligatory for all loans other than the "temporary" loans.⁴ Sinking funds were also to be established to extinguish in from twenty to thirty years the debts already incurred.⁵ In determining the amount of net indebtedness under this act, the amounts in sinking funds were to be deducted from gross indebtedness.

The supreme judicial court of the commonwealth was empowered to enforce the provisions of the act "by mandamus or other appropriate remedy."⁶

It should be recognized that the municipal finance act of 1875 was important not only on account of its specific provisions, but also because it established definitely the principle that the right of the cities and towns to administer their financial affairs was not unlimited. This was clearly stated as follows in an opinion of the Massachusetts supreme court in 1876:

The statute thus deprives cities and towns of the authority to contract debts for borrowed money, which they had previously possessed, whether derived from express grant, or held to exist as an implied power; and, instead of it, gives to these municipalities a limited power which can be lawfully exer-

¹ *Ibid.* The length of time for which loans might be contracted for the construction of sewers was extended to thirty years in 1892. Acts of 1892, Ch. 245, Sec. 6.

² Acts of 1875, Ch. 209, Sec. 6.

³ *Ibid.*, Sec. 10.

⁴ *Ibid.*, Sec. 4.

⁵ *Ibid.*, Sec. 7. See Ch. IV for a fuller treatment of these provisions.

⁶ *Ibid.*, Sec. 11.

cised only in the mode specially pointed out. It contains a positive prohibition of all debts contracted for borrowed money in any other mode. The plain object of the law is to protect cities and towns from the creation of municipal debts without sufficient necessity and consideration, and without proper provision for payment, and to prevent improvident and reckless expenditures of public money, as a natural consequence of debts so contracted. All its provisions, reasonably interpreted, with reference to these salutary ends, must be regarded as prohibitory. They establish a plain limit to the exercise of the power to borrow money.¹

Attention may now be turned to several minor statutes supplementing the act of 1875, which merely extended slightly the principles of that law. Thus, an act of 1876 limited the subscriptions of cities and towns to stock in railroad companies to three per cent of the value of their taxable property.² By another act of the same year, municipalities were permitted to refund old debts, but the maturity of the new securities issued was not to extend beyond thirty years from the time that the law of 1875 took effect.³ Later legislation also provided that debts might be contracted for establishing or purchasing a municipal gas or electric light plant,⁴ and for the acquisition of land for, and the establishment and maintenance of, public playgrounds,⁵ to be payable within thirty years; for building schoolhouses and other public buildings, to be payable within twenty years;⁶ and for connecting estates with public sewers, to be payable within three years.⁷

The next major legislation relative to municipal finance was enacted in 1885. In two acts of that year⁸ the existing restrictions upon local debt were not only carried farther, but another significant form of financial control was also employed, i.e. limitation of local tax levies.

One of the acts of 1885 imposed additional limitations upon municipal borrowing as follows. For all cities except Boston the debt limit was fixed at two and one-half per cent on the average valuation as determined for the purpose of taxation, instead of three per cent as provided in the legislation of 1875.⁹ The debt

¹ *Agawam National Bank vs. South Hadley*, 128 Mass., 505.

² Acts of 1876, Ch. 175.

³ Acts of 1876, Ch. 238, Sec. 4.

⁴ Acts of 1891, Ch. 370, Sec. 4.

⁵ Acts of 1893, Ch. 226.

⁶ Acts of 1894, Ch. 221.

⁷ Acts of 1899, Ch. 319.

⁸ Acts of 1885, Chs. 178, 312.

⁹ Acts of 1885, Ch. 312, Sec. 2.

limit for Boston was also lowered. Up to January 1, 1887, the limit for that city was fixed at two and one-half per cent, and thereafter at two per cent, of the average valuation, instead of three per cent as provided in 1875.¹

LIMITATION OF MUNICIPAL TAX LEVIES, 1885

The other act of 1885 imposed a limit upon municipal tax levies. In so doing, the legislature acted upon the recommendation of Governor Robinson that "some limit . . . be placed upon the power to appropriate money for expenditures, and to assess taxes therefor, perhaps on a fixed percentage of the taxable property."² As indicated in this recommendation, the purpose of this legislative device was to curb municipal expenditures, which were then exhibiting a marked upward tendency, by limiting the funds which might be made available for current purposes. It should be noted, however, that tax limits were imposed only upon cities; towns were not restricted in this respect.

The limit upon taxation for all cities except Boston, exclusive of the state and county taxes and sums required by law to be raised on account of the city debt, was fixed at "twelve dollars on every thousand dollars of the average of the assessors' valuations of the taxable property therein for the preceding three years."³ For Boston, the taxes "assessed on property exclusive of the state tax⁴ and of the sums required by law to be raised on account of the city debt" were "not to exceed in any year nine dollars on every one thousand dollars of the assessors' valuation of the taxable property therein for the preceding five years."⁵

¹ Acts of 1885, Ch. 178.

² Senate Doc. 1 (1885), p. 44.

³ Acts of 1885, Ch. 312, Sec. 1. By an amendment in 1893 it was provided that, in the case of cities having less than 100,000 population, the tax limit should be calculated on the basis of the assessors' valuation for the "preceding year" instead of the preceding three years. Acts of 1893, Ch. 247.

⁴ ". . . and county tax not exceeding \$425,000," added by amendment in 1887. Acts of 1887, Ch. 281. The city of Boston and the county of Suffolk being the same for financial purposes, it was supposed in 1885 that the amount necessary for annual county expenditures could be included in the nine-dollar tax limit, but by 1887 it was found that the city required all of the tax levy for its own purposes. Consequently, the amount of county expenses at the time — \$425,000 — was by this amendment exempted from the limit.

⁵ Acts of 1885, Ch. 178. This limit was later raised to ten and one-half dollars

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The principles of control of local finances laid down by the statutes of 1875 and 1885 thus took the form of limitations upon both the borrowing power and the taxing power of municipalities, and of the requirement that at the time debts were contracted provisions should be made for their repayment at maturity. No additional legislation of significance relative to these aspects of municipal finance was enacted until 1913. The results of the limitations upon debt and taxation will now be examined. A later chapter will deal with the results of the requirements of the law regarding the payment of debt.¹

IMMEDIATE RESULTS OF ACTS OF 1875 AND 1885

For a time after the foregoing acts went into effect there was considerable reason to believe that effective restrictions had been placed upon the unwarranted creation of debt by extravagant or inefficient cities and towns. Ground for optimism was to be found in the noticeable reduction of net debt for some years after 1875, as is shown by the figures on page 33. It declined from \$72,165,156 in 1876 to the comparatively low figure of \$62,782,507 in 1882. After 1882 a moderate increase appeared up to 1890, when the total indebtedness was \$70,742,786, but still below the amount of 1875. Although the expenditures of municipalities were increasing somewhat, the ordinary revenues supplied the additional income that was necessary, while municipal indebtedness remained nearly stationary. For fifteen years, therefore, after the passage of the law of 1875 the growth of local debt seemed to be under control.

But the record after 1890 is far more discouraging. In a decade and a half thereafter the aggregate net debt of cities and towns more than doubled. In the words of Professor Bullock, "although the annual tax levy increased eighty per cent during the next fifteen years [after 1890], credit was employed so largely that the net indebtedness rose nearly one hundred and nine per cent."²

and the basis for the average valuation reduced to three years (Acts of 1900, Ch. 399); and finally the limit was raised to ten dollars and fifty-five cents (Acts of 1908, Ch. 589), which prevailed until 1921. Since 1921 the limit for Boston has been fixed annually by the legislature. See p. 53 and note.

¹ See Ch. IV.

² Bullock, *Finances of Mass.*, p. 95.

In 1905 it stood at \$147,509,003, and the rise continued thereafter. In short, it was becoming increasingly evident that the statutory limitations of indebtedness were failing in their intent. Therefore the whole problem again demanded consideration.

INDEBTEDNESS OF CITIES AND TOWNS IN MASSACHUSETTS, 1876-1912¹

Year	Aggregate Net Debt	Year	Aggregate Net Debt
1876	72,165,156	1895	98,511,920
1877	72,049,685	1896	104,702,875
1878	68,864,685	1897	115,798,889
1879	67,728,557	1898	121,385,139
1880	68,512,929	1899	128,051,487
1881	65,408,691	1900	131,016,743
1882	62,782,507	1901	126,189,227
1883	63,413,128	1902	128,477,581
1884	63,595,568	1903	135,906,382
1885	63,306,213	1904	141,660,675
1886	63,585,220	1905	147,509,003
1887	64,675,061	1906	150,998,898
1888	65,586,603	1907	158,586,274
1889	66,502,030	1908	163,558,325
1890	70,742,786	1909	166,080,073
1891	73,066,660	1910	167,315,903
1892	76,483,323	1911	169,024,086
1893	80,125,652	1912	174,490,380
1894	87,786,918		

(*) Figures for the years 1876 to 1910 inclusive were taken from Mass. Tax Commissioner's Report, 1910, pp. 16, 17; for 1911 and 1912, from Massachusetts Reports of the Statistics of Municipal Finances for those years.

BREAKDOWN OF EARLY REGULATORY LEGISLATION

A number of factors were combined in the breakdown of the acts of 1875 and 1885. Frequent grants by the legislature of exemption from the limitations of the acts; looseness in the statutes themselves;¹ a considerable amount of indifference, evasion, and even outright disregard of the law — all contributed to the growing ineffectiveness of the existing measures regarding municipal finance. At the same time, an increase in population of the cities and towns and marked changes in economic and social con-

¹ See Hearing, Joint Special Committee on Municipal Finance, 1912, p. 11; Mr. C. F. Gettemy, director of the bureau of statistics: "The misfortune is that the act [of 1875] did not make its provisions sufficiently clear so that it would be susceptible of uniform interpretation throughout the Commonwealth. It has not accomplished its purpose in all respects."

ditions forced upon municipalities new administrative problems involving enlarged expenditures, and made it difficult for them to conduct their financial affairs in full conformity with requirements laid down a generation earlier. Moreover, a rising standard of public consumption, not infrequently taking the form of extravagance, pressed constantly upon the debt and tax limits. Attention will now be turned to the particular ways in which the intent of the municipal indebtedness legislation was defeated.

One of the major reasons for the renewed growth of debt was the passage during the years of a large number of special acts by the legislature allowing borrowing by cities and towns outside the debt limit established in the general law. In fact, very soon after the passage of the act of 1875 cities and towns began to appeal to the legislature for exemptions from the restrictions upon borrowing, and before long the petitions became frequent. In response to these appeals, more than 1500 special exempting acts were passed between 1875 and 1911.¹ In 1912, approximately \$73,000,000 of debt was outstanding, outside the limit for general purposes, under the authority of such special legislation.² This development seriously diminished the effectiveness of the debt limit, and it indicated either that the legislature acquiesced too easily in requests for exemptions, or that the restrictions upon municipal borrowing and taxation were too rigid for general application and not adapted to variations in local conditions.

In this connection, it is of interest to note that, in some instances, the attorneys of financial houses dealing in municipal securities contended that a special act authorizing a city or town to borrow for a specified purpose "not exceeding" a given amount prevented that city or town from borrowing additional amounts for like purposes under the general law. In the light of this interpretation, some financial houses even refused to buy bonds or notes for certain purposes beyond the amount specified in the special act, although these bonds or notes were issued under the general law authorizing such borrowing.³

Another reason for the failure of the existing legislation to re-

¹ House Doc. 1803 (1913), p. 47.

² House Doc. 2168 (1912), p. 20.

³ House Doc. 1803 (1913), p. 48.

strict effectively the growth of local debts was to be found in the unsound practice developed by cities and towns in connection with so-called "temporary" loans made in anticipation of taxes. Very clearly the intent of the act of 1875 was to prevent altogether the incurring of funded debt for current expenses. The law, however, did not specifically prohibit that practice. As pointed out earlier in this chapter, it merely authorized the incurring of "temporary" loans in anticipation of taxes, and specified the purposes and periods for which other debts might be incurred. Municipalities scarcely dared to ignore the law by borrowing openly on tax notes for a period longer than a year, but they nullified its intent by incurring liabilities of this kind in excess of collectible taxes and by the use of the demand note. Each of these practices will now be examined in some detail.

Borrowing in excess of collectible taxes came about in this manner. Under the provisions of the law authorizing temporary borrowing in anticipation of taxes, many towns assumed the right to borrow to an amount equal to the total tax levy of the year. It is seldom possible, however, to collect the full amount of tax levied each year, and therefore municipalities which borrowed up to the maximum of the levy incurred liabilities in excess of the amounts which the statute made applicable to the payment of those liabilities. In some instances, borrowing in anticipation of taxes was not even limited to the amount of the levy.¹ It was therefore not uncommon for cities and towns having tax notes outstanding to find themselves with insufficient cash on hand to meet certain of those notes at maturity. In such cases, renewal or refunding was resorted to without appeal to the legislature. In the case of tax notes issued for a full year, they were frequently "paid" from the proceeds of a new loan issued in anticipation of taxes of the succeeding year, the contention being that it was impracticable to comply with the law requiring a loan in anticipation of taxes in a given year to be paid from the proceeds of those taxes, and that because of a lack of cash on hand occasioned by a large amount of uncollected taxes it was necessary to meet maturing loans in this manner.²

¹ *Ibid.*, p. 36.

² House Doc. 2168 (1912), p. 16.

In this way a vicious policy of renewing outstanding loans, originally issued for "temporary" purposes, was inaugurated and continued, and short-time debts became essentially permanent obligations. Regarding this practice, the statement was made by an investigating committee of the legislature in 1913 that "many municipalities are still paying interest charges upon loans issued in anticipation of the taxes of ten, twenty, thirty, and, in a few cases, fifty or more years ago."¹ Furthermore, although debt thus accumulated had ceased to be temporary, it continued to be classified as such for the purpose of calculating the borrowing capacity of a city or town and was therefore excluded from the legal debt limit.

The demand note, moreover, lent itself to particular abuse in connection with borrowing for temporary purposes. The law prescribed no definite form of note for this kind of loan, and therefore the demand note was not illegal, but its use was responsible to a considerable extent for the neglect of municipalities to make payments of tax loans within proper periods of time, with the result that such loans became permanent debt. They were often allowed to remain unpaid for years, or as long as the holders did not demand payment.² This practice was stopped in 1912 by a law prohibiting the director of the bureau of statistics from certifying demand notes;³ but at that time there were still outstanding \$1,600,000 of such notes which should have been paid or refunded.⁴

Municipal officers also succeeded in evading the spirit of the law by an exceedingly ingenious but doubtful interpretation of certain of its sections. For the purpose of explaining as clearly as possible how this was done, reference will be made to Chapter 27 of the Revised Laws of 1912, sections 6, 7, 8, and 11 of which were a codification of the provisions of the law of 1875 and the later acts regarding the borrowing power of cities and towns.

¹ House Doc. 1803 (1913), p. 37.

² *Ibid.*, p. 37. This abuse was, however, confined largely to towns. Cities usually took care of such notes within short periods.

³ Acts of 1912, Ch. 45. See Ch. VII of this study relative to the certification of notes.

⁴ House Doc. 2168 (1912), p. 13.

Section 8 of Chapter 27 authorized the contraction of "debts other than those mentioned in the two preceding sections." The "two preceding sections" referred to "temporary loans." Section 11 of the same statute required that "all other debts mentioned in section eight shall be payable within ten years." There were, however, no debts mentioned specifically in section 8. This allowed section 11 and section 8 taken together to be interpreted in such a way as to authorize the incurring of debt for any desired purpose, including ordinary current expenses as well as legitimate permanent improvements. Thus, instead of describing a loan as being "in anticipation of taxes," which under section 6 made it a "temporary loan" payable within a year, a municipality might describe it as being for "town charges," "general town purposes," "general municipal purposes," or even for "current expenses," and thereby bring it within the provisions of section 11.¹ By inference, therefore, money might be borrowed for any purpose whatsoever provided the loan were limited to ten years, "whether it was for the support of the poor, the payment of insurance premiums, the compilation of a local history, or the purchase of a town hearse." The result was, that there was scarcely an item of municipal expenditure that did not find its way into a ten-year loan.²

¹ *Ibid.*, p. 14.

² The following partial list, taken from the records of the bureau of statistics, indicates the great variety of purposes for which municipalities were borrowing. See House Doc. 2168 (1912), p. 15.

"Any legal purpose."	Fire department horses.
Assessors' block system.	Fire engine repairs.
Automobile equipment.	Garbage and scavenger.
Bitulithic pavement.	Garbage scow.
Bonding overdraft.	Gravel pit.
Care of books.	Hospital sheds.
Care of rifle-range.	"Improvement."
City records.	Industrial training.
Claims and damages.	Insurance.
Collectors' contingent.	Library purposes.
Curbings, gutters, and crosswalks.	Litigation.
Current expenses.	Monuments.
Deficiencies.	Moth extermination.
Dredging.	"Municipal."
Dump.	Overdrafts.
Election expenses.	Overdraft refunding.
Electric and gas lighting.	Paving.
Fire apparatus.	Police signal service.

The breakdown of the sinking fund and serial payment provisions for the payment of debts at maturity also contributed to the accumulation of debt. This aspect of the situation has, however, been reserved for treatment at a later point in this study.¹

Delay in the collection of taxes was another factor directly related to the problem of municipal debt. Large amounts of taxes were allowed to remain unpaid, and as a result cities and towns were obliged to borrow in order to meet their current needs.² According to one official investigating body, "much of the trouble which cities and towns have encountered in the method of debt accumulation can be traced directly to the failure to bring into the treasury money assessed for the payment of the cost of government."³ And in 1912 the director of the bureau of statistics said:

If it were possible to enforce a more prompt collection of taxes, many of the embarrassments with which city and town officials are now confronted in the matter of meeting notes at maturity without feeling obliged to resort to renewals, — at the expense too frequently of stretching the law, — would vanish.⁴

Local influence of fear as well as of favor was largely responsible for the failure of the tax collectors to make prompt collection of taxes. And although local officials were empowered by law to proceed against collectors of taxes who failed to collect or to turn over within a reasonable time the taxes committed to them,⁵ they seldom exercised that power. "As a result many cities and towns, at the close of the fiscal year 1911, had uncollected taxes extending back for from ten to twenty years."⁶

Poor (Maintenance, support, etc.).	Street lights.
School furniture.	Street railway stock.
Schoolhouse maintenance.	Street watering deficiencies.
School repairs.	Town hearse.
School sundry bills.	Town history.
Sidewalks.	Tree warden.
"Special municipal."	"Trolley legislation."
Sprinkling equipment.	Vault fittings.
Steam roller and crushers.	Voting machines.
Street lighting.	War loans.

¹ See Ch. IV.

² Tax Commissioner's Report, 1909, p. 40.

³ House Doc. 1803 (1913), p. 33.

⁴ House Doc. 2168 (1912), p. 18.

⁵ Revised Laws, 1902, Ch. 25, Secs. 73, 77.

⁶ House Doc. 1803 (1913), p. 29.

A statutory provision which made taxes and incidental charges thereto a lien upon property for two years also contributed to delinquency in the payment of taxes.¹ Because of this law many collectors seemed inclined to allow taxes to remain unpaid for that length of time, and many persons assumed that it gave them the privilege of delaying payment for two years after assessment.² And inasmuch as it had become a widespread practice for cities and towns, under legislative authority,³ to charge interest upon taxes remaining unpaid after a stated time, collectors were prone to assume that the municipality was not losing money and that therefore there was no necessity for attempting to make early collection.⁴ This practice was unsound and made the municipality a lender and the taxpayer a borrower of public funds.⁵

A considerable amount of poll taxes also failed of collection because of the fact that between the date of assessment and the time when the tax warrants were submitted to the collectors, many of the persons assessed moved from the place of assessment and could not be located later. This was particularly true in manufacturing cities and towns.⁶

The failure of municipalities, for these various reasons, to cover anticipated amounts into their treasuries made inevitable either borrowing or curtailment of expenditures. Unfortunately, the local governments frequently resorted to the former method of dealing with deficits.

The intent of the law was also commonly defeated through elastic interpretation of the term taxes. Thus by including any available resources, such as liquor licenses and other fees, departmental receipts, etc., under the term "taxes," and using them to

¹ Acts of 1909, Ch. 490, Sec. 36.

² House Doc. 1803 (1913), p. 30.

³ Acts of 1909, Ch. 490, Sec. 71.

⁴ House Doc. 1803 (1913), p. 30.

⁵ That it was possible, however, for the collection of local taxes to be made more effective through the coercion of tax collectors, was apparent after 1912, when the tax commissioner was given authority to bring action against a tax collector and his bond for recovery by the city or town of any taxes uncollected and not turned into the treasury which had been outstanding three years or more. The salutary effect of this statute was immediate, and in many municipalities the collections were promptly brought within the three year period. See Acts of 1912, Ch. 272, and House Doc. 1803 (1913), p. 29.

⁶ House Doc. 1803 (1913), p. 31.

meet payments upon loans, municipalities exceeded the provision of the law that temporary loans were to be incurred only in anticipation of taxes and were to be paid therefrom.¹

Borrowing from trust funds by municipalities and the expenditure of amounts so derived for purposes other than those stipulated for the funds was another unsound financial practice common at the time, and one that had been indulged in for a long time previously.² The total of such funds borrowed or used in all of the cities and towns at the close of the fiscal year 1910 was \$794,301.92.³ Moreover, in many instances municipalities failed to keep proper records of these transactions. Often a demand note was the only evidence that a trust fund had been transferred or appropriated, while in some cases there was nothing whatsoever to show that the funds had been diverted from their proper uses except in so far as interest allowances had been made upon them.⁴ A special legislative committee on municipal finance reported in 1913, relative to borrowing from trust funds and the issue of demand notes therefor, that "in no instances did the reports of financial officers of cities and towns transmitting to assessors statements of indebtedness falling due within the year include either of these items."⁵

From several points of view borrowing from trust funds was open to severe condemnation. In the first place, expenditure of the borrowed funds for current purposes left no specific assets to represent the legacies and bequests. In the second place, the usual arrangement whereby interest was allocated to the fund, often at a generous rate,⁶ in lieu of the actual interest on the appropriated principal, defeated the purpose of the fund. Handled in this way, established trusts, instead of affording relief to the taxpayers, became an added burden. Thirdly, this method of financing was not infrequently utilized by officials who courted popularity, for it was a way of meeting expenditures without the necessity of re-

¹ 5th Report, Municipal Finances, p. x.

² Gettemy, *Mass. Legislation Regulating Indebtedness*, p. 683.

³ House Doc. 1803 (1913), p. 42.

⁴ H. S. Chase, *Municipal Debts and Revenue Deficiencies*, p. 6.

⁵ House Doc. 1803 (1913), p. 24.

⁶ See Gettemy, *Mass. Legislation Regulating Indebtedness*, p. 683.

sorting to taxes or to legitimate borrowing. And in addition to being an unsound financial practice, borrowing from trust funds was, of course, a nullification of the wishes of the donors.

Finally, a basic factor in the situation was the limitation upon the amounts which cities might raise annually by taxation. This restriction, the purpose of which was to curb their expenditures, actually contributed in several ways to increase their indebtedness.

In the first place, cities, being unable on account of the tax limit to raise by taxation the sums required for their expanding legitimate needs, were compelled to borrow. Great economic changes had taken place since the passage of the law limiting the tax levy, and they called for expenditures for public properties and improvements in excess of the amounts legally available from taxes. At the same time, additional undertakings were constantly being required of municipalities by legislation, which still further increased their financial burdens. Under the circumstances, the cities found it necessary to turn to loans to supplement their limited revenues.

To a certain extent tax limitation was responsible also for the growth of debt on account of the fact that it was a challenge to human nature. If people are told that they may spend a certain amount, they are likely to spend the whole of the permitted sum; consequently the law which fixed a maximum for the tax levy, instead of encouraging economy and efficiency in financial administration, seemed to invite municipalities to increase expenditures up to that maximum. Relative to this aspect of the legislation of 1885, the following opinion of Mr. Nathan Matthews, former mayor of Boston and close observer of municipal affairs, is significant. He wrote:

The system of statutory restriction cannot be said to have been an unqualified success. It tends to make the city authorities regard the legal maximum tax levy rather as a grant of money by the state than as a limit upon the right to compel public contributions from the people; it has encouraged greater use of the borrowing power than would otherwise have been resorted to.¹

¹ Matthews, *Municipal Charters*, p. 27. See also Shepard, *op. cit.*, Vol. I (1912), pp. 186-188.

Some of the cities also assumed that the imposition of a limit upon the amount to be *assessed* did not limit the amount that might be *spent*; hence they allowed their expenditures for current purposes to exceed the amount raised by taxation, and then indulged in the thoroughly unsound practice of borrowing to make up the difference.¹

Finally, the policy of tax limitation favored the shrewdest and the most unscrupulous politicians, who were able to hide their extravagance behind a tax rate limited by the legislature and, by contracting debt, to pass on to future generations the cost of graft and inefficiency, as well as the burden of interest payments. This is well illustrated by the experience of the city of Lawrence. In 1911 that municipality was brought to the verge of bankruptcy largely through bad financial management. By resorting to overdrafts in excess of the regular budget appropriations, the city government had evaded the legal tax limits for some years. The overdrafts increased from \$48,000 in 1906 to \$205,000 in 1910, a large part of which were taken care of by bond issues. Finally, in 1911, the debt of the city passed the legal limit. Then, on account of its impaired credit, the municipality soon found itself in serious financial difficulty.²

At the same time, the purpose of the tax limit was nullified to a considerable extent by the frequent exemptions from its operation which were granted by the legislature. Evidence of the lengths to which that practice had been carried is found in the declaration of the director of the bureau of statistics³ in 1912 that

since the passage of the act in 1885 the \$12 limit has been operative continuously in 18 of the 32 cities outside of Boston, while 14 cities have enjoyed exemptions from the \$12 limit at various times during the period and 10 of them during certain years have enjoyed freedom from any limitation whatever.⁴

In this way, the legislature, and not the city itself, became the final judge as to the wisdom or necessity of many expenditures.

¹ House Doc. 1803 (1913), p. 57.

² National Municipal Review, Vol. I (1912), p. 125; also House Doc. 2168 (1912), pp. 101-102.

³ The director of the bureau of statistics was responsible for the collection and compilation of statistics of municipal finances. ⁴ House Doc. 2168 (1912), p. 27.

In view of the fact that limitation of the tax levy was imposed upon cities only and not upon towns, it is of interest to note the difference in the debt burden of cities and towns of comparable size, as revealed by an investigation by a legislative committee in 1912. It was found that, although tax rates were about the same in the smaller cities and the larger towns, the debt of the former had increased far more rapidly than that of the latter. In general, cities were in a worse financial condition at that time than towns of the same size, largely as a direct result of tax limitations.¹

In short, the experience of Massachusetts furnishes further evidence that the attempt to prevent local government from spending money by imposing a limitation on the tax levy is likely to be futile and to lead to even more serious evils than it seeks to eliminate.² The following statement by Dr. Le Grand Powers of the United States census bureau is of interest in this connection. Writing in 1914 and commenting upon the fact that many cities throughout the country were then incurring debts as unreasonably as in the decade prior to 1873, he said, "One factor that has assisted in bringing about this state of affairs has been the unwise restriction placed upon cities of keeping their tax rate below a fixed and parsimonious limit."³

¹ *Ibid.*, pp. 38-89; National Municipal Review, Vol. X (1921), pp. 477-478.

² See Chase, *Municipal Debts and Revenue Deficiencies*, pp. 8-9. In this report, made to the governor, to the executive council, and to the committee on ways and means of the general court of Massachusetts, the writer said:

"We are forced to the conclusion that such legislation as was taken in 1885 concerning tax limitation is fundamentally wrong. . . . With the tax rate limited to \$12 and with the expenses in excess of \$12 hidden by issues of debt, it is impossible for the citizen or even the city official to realize the extent of municipal extravagance or municipal inefficiency, because such excess cannot appear in the tax rate directly. . . . In our opinion, it is unsound both theoretically and practically, and has brought about serious evils in administering the finances of our cities. . . . The result has not been to encourage economy and efficiency in the administration, as was hoped, but to encourage in a large number of our cities a policy of issuing notes and bonds and of using the proceeds to pay running expenses in excess of the \$12 tax limit. This proceeding is a highly dangerous one, and has resulted in the accumulation of floating debts to an alarming extent."

³ Le Grand Powers, "Increasing Municipal Indebtedness," National Municipal Review, Vol. III (1914), pp. 102-106. See the following for the experience of some states, notably Ohio, with tax limitations: H. G. Loeffler, "Municipal Tax Limits and Economy," National Municipal Review, Vol. X (1921), pp. 475-480; D. C. Sowers, "The Financial Condition of Ohio Cities," National Municipal Review, Vol. VII (1918), pp. 371-375; R. A. Taft, "The Present Tax Situation in Ohio,"

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Some measure of the extent to which Massachusetts municipalities had carried these various unsound financial practices is found in the fact that in 1912 and 1913 thirty-two municipalities petitioned the legislature for the necessary authority, by special acts, to refund indebtedness aggregating \$1,125,243.71, most of which, according to the statement of the director of the bureau of statistics, represented liabilities caused by the borrowing or use of trust funds, demand notes long outstanding, and other debts for the payment of which proper provision had not been made at the time of their creation.¹

THE DEBT SITUATION ABOUT 1912

After a lapse of a generation, therefore, the condition of municipal finance in Massachusetts was practically the same as that which led to the passage of the acts of 1875 and 1885. Consequently, a vigorous renewal of effort on the part of the commonwealth was necessary in order to check the rapid accumulation of municipal debt. At the same time, the reasons advanced for the condition were strikingly similar to those put forth in 1875. Again the growth of debt was attributed very largely to the failure of the existing laws to prevent either the incurring of fixed debt for current expenses, or the improper refunding of debt, including the renewal of tax loans; also to the lack of adequate provisions for insuring the payment of debt at maturity.²

The immediate occasion which prompted the renewed effort to control local indebtedness was a petition in 1911 by the town of Danvers for legislative authority to refund certain obligations. This appeal, which was one of five received from various municipalities that year, attracted particular attention. The debt which the town wished to refund consisted of a demand note for \$20,000, issued in 1875 for "general expenses," and bearing interest at the rate of 6 per cent. Interest charges amounting to

National Municipal Review, Vol. XV (1926), pp. 262-265; C. Wilcox, Rate Limitation and the General Property Tax in Ohio, Columbus, 1922; and Report of the Ohio Joint Committee on Taxation, 1919, pp. 36-39.

¹ 5th Report, Municipal Finances, p. x.

² House Doc. 2168 (1912), p. 28.

\$42,000 had been paid upon the note during the thirty-five years it had been outstanding.¹ The petition was granted and a special act was passed allowing the town to refund the debt; nevertheless the fact that a municipality found it necessary to borrow money when a demand note was presented for payment aroused curiosity as to the extent to which cities and towns of the commonwealth had incurred debts without making adequate provision for their payment. The question was considered to be of sufficient importance to warrant an official investigation, and an inquiry regarding the state of municipal indebtedness was accordingly set on foot by a senate order of February 14, 1911, calling upon the director of the bureau of statistics to furnish answers to the following questions:²

What cities and towns have any debt outstanding, other than loans lawfully made in anticipation of taxes, against which no sinking funds are being accumulated or for the extinguishment of which no annual payments of principal are being made? What are the respective amounts?

The returns available under the provisions of the act of 1906 did not make it possible at the time to ascertain all the facts involved in the two questions of the senate order. Inadequate returns and conflicting statements by city and town officials, and the limitations of time and staff, led the director of the bureau to characterize the report as "far from satisfactory"; but on the basis of the readily accessible data regarding the indebtedness of all the 33 cities and of 156 of the 321 towns, the following information was furnished:³

MUNICIPALITIES HAVING DEBTS OUTSTANDING, OTHER THAN LOANS LAWFULLY MADE IN ANTICIPATION OF TAXES, AGAINST WHICH NO SINKING FUNDS ARE BEING ACCUMULATED OR FOR THE EXTINGUISHMENT OF WHICH NO ANNUAL PAYMENTS OF PRINCIPAL ARE BEING MADE

	Number	Amount
Cities	15	\$621,799.28
Towns	67	498,635.70
Total	82	\$1,120,434.98

¹ 3rd Report, Municipal Finances, p. xvii.

² Senate Doc. 373 (1911), p. 3.

³ *Ibid.*, p. 3.

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This aggregate may be classified approximately as follows:

(1) Loans from individuals or banks obtained chiefly on demand notes	\$269,694.28
(2) Trust funds (other than Cemetery Funds) received by cities and towns, the principal being borrowed or used	460,171.82
(3) Cemetery Funds (for "Perpetual Care" of lots)	390,568.88
Total	\$1,120,434.98

There are good reasons for supposing that the sum arrived at did not represent the total amount of outstanding municipal debts for which payment had not been provided. Certain towns were not included in the list because the director of the bureau of statistics felt that they had not been investigated with sufficient care; and because of the lack of available data, no examination whatsoever was made of conditions in 165 towns. Assuming, however, outstanding debt for the 165 towns not included, payment for which had not been provided for, in proportion to that of the 156 which were examined, the director estimated an approximate indebtedness of \$1,026,000 for all of the towns.¹ If this estimate be accepted, the total amount of outstanding obligations of this type for both cities and towns is increased to approximately \$1,648,000. But even that figure in all probability fell short of the actual amount of such indebtedness, for, according to the statement of the director, it did not include loans unlawfully made in anticipation of taxes, or loans issued originally in anticipation of taxes but with respect to which the statutory requirement of payment within one year had been disregarded. Hence he said, "I should not care to hazard an opinion as to the aggregate of all outstanding municipal obligations."²

It was not possible in the time allowed for the inquiry to ascertain the extent to which municipalities had ignored certain provisions of sinking fund legislation. Had the facts been known regarding breaches of law in this respect, the total of municipal indebtedness for which payments were not provided would have been still further increased.

¹ *Ibid.*, p. 3.

² *Ibid.*, pp. 3, 4.

Although admittedly incomplete, the report on municipal indebtedness revealed grossly unsound practices in municipal finance. The specific abuses disclosed were: (1) borrowing on demand notes which were allowed to remain outstanding, often for long terms of years, without provision being made for their payment; (2) borrowing the principal of trust funds and using it for almost any municipal purpose; and (3) the application to general municipal purposes of sums left by individuals to insure the care of family lots in burying grounds or for general maintenance of the cemetery.¹

Aside from their illegality, these practices were open to severe condemnation on the ground of their heavy cost to taxpayers. The town of Billerica, for example, had been paying interest at 6 per cent for 57 years upon a demand note dating back to 1852.² New Bedford borrowed \$100,000 from a trust fund in 1870, agreeing to pay toward the objects of the fund 6 per cent on the amount annually. By 1910 aggregate interest payments had amounted to \$240,000. Moreover, no sinking fund had been established, so that the city was still obligated to restore the fund of \$100,000.³ Numerous instances of similar abuses were cited.⁴ The director of the bureau of statistics therefore saw fit to supplement his report with the recommendation⁵

. . . that careful consideration by the legislature of this important subject is warranted with a view to determining whether some method may not be devised, without imposing too great burdens on the present generation, for restoring the principal of trust funds borrowed on other than time notes, wherever it may legally be done; for refunding long-standing debts based upon demand notes; and for putting an end as soon as possible to all perpetual loans.

Accordingly the legislature continued as well as broadened the

¹ *Ibid.*, pp. 5-13.

² *Ibid.*, p. 6.

³ *Ibid.*, pp. 7, 8.

⁴ *Ibid.*, pp. 15-34. In 1912 the director of the bureau of statistics said of certain debts of the town of Sudbury: "Some of these debts were very old. We traced one of them back 65 years, and the town treasurer thought we did not go back far enough — it probably went back to the days of the Revolution." See Hearing, Joint Special Committee on Municipal Finance, 1912, pp. 25-26.

⁵ 3rd Report, Municipal Finances, p. xx.

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scope of the inquiry by requiring the director of the bureau of statistics

... to make a special investigation and to report the results thereof, with such proposed legislation thereon as he deems necessary to the next general court, relative to the indebtedness of the cities and towns of the commonwealth, including loans made in anticipation of taxes, the amount and character of indebtedness incurred within and without the debt limit, respectively, and the amount of debt outstanding against which no sinking funds are being accumulated or for the extinguishment of which no payments have been provided in accordance with law.¹

The results of the comprehensive investigation conducted under authority of this resolve were embodied in a report to the legislature as of April 15, 1912.² This report revealed the total outstanding indebtedness of every city and town in the commonwealth; also their aggregate gross and net funded indebtedness, the amount of gross and net general debt incurred within and without the debt limit, the manner in which loans had been made in anticipation of taxes, and, in general, the methods by and the purposes for which debt had been incurred. A summary of these findings appears in the following table.³

SUMMARY OF MUNICIPAL INDEBTEDNESS IN MASSACHUSETTS APRIL 1, 1911.

<i>Within</i> debt limit exclusive of trust funds		
borrowed or used	\$67,506,812.18	
Net General Debt ¹		
Trust funds, borrowed or used	794,301.92	\$120,103,947.16
<i>Outside</i> debt limit	51,802,833.06	
Net Public Service Enterprise		
Water	30,139,647.34	
All other	18,154,638.15	48,294,285.49
Net Cemetery Debt		174,020.56
Total Net Funded or Fixed Debt		168,572,253.21
Amount of Sinking Funds		70,020,011.61
Total Gross Funded or Fixed Debt		238,592,264.82
Tax Loans		8,623,524.71
Outstanding Warrants or Orders		514,041.66
Aggregate Municipal Indebtedness		247,729,831.19

(1) *General debt* refers to debt which it is expected will be retired by funds derived from taxation, whereas *enterprise debt* represents debt to be paid out of the earnings of the enterprises for which the debt was contracted.

¹ Acts of 1911, Ch. 142.

² House Doc. 2168 (1912).

³ *Ibid.*, p. 4.

It was also found that the funded or fixed debt of the cities was increasing annually at the rate of approximately \$7,000,000 and that of the large towns at the rate of approximately \$700,000.¹

Relative to the conditions disclosed by the investigation, it was the opinion of the director of the bureau of statistics that

a complete revision of the law relating to municipal indebtedness (together with certain modifications of other statutes bearing closely on the subject) is imperative if it be desired to prevent the continuance or recurrence of the conditions disclosed by this investigation.²

He also submitted the following recommendations for legislation to correct the existing abuses in the financial administration of cities and towns:³

1. That cities and towns be restrained from the incurrence of fixed debt for current expenses by extending the list of purposes for which they may legitimately borrow, the issue of loans for any other purpose other than those specified being prohibited; also by causing the renewing or refunding of loans except as provided by law to cease.
2. That a limit be placed on the amount that may be borrowed in anticipation of revenue. To be sound, any limitation must be calculated on some known basis. Obviously, this cannot be the current year's levy, since borrowing in anticipation of taxes usually begins before the levy is made.
3. That a uniform penalty be imposed on overdue taxes.
4. That the authority to establish sinking funds be repealed and that all cities and towns be required hereafter to provide for the payment of funded debt by the serial method, so called.
5. That the limit on the amount that may be raised by taxation in cities for municipal purposes be raised or abolished.

It is significant that in 1912, the year of this detailed investigation and report of municipal indebtedness, special authority was granted by the legislature to 19 cities and towns permitting them to refund certain long-standing indebtedness amounting to \$961,153, the legality of which was either doubtful or non-existent.⁴ No doubt much of this legislation was stimulated by the influence and activities of the bureau of statistics and by its co-operation with local officials desirous of placing the indebtedness of their municipalities on a sound basis.

¹ House Doc. 2168 (1912), p. 7.

² *Ibid.*, p. 5.

³ *Ibid.*, pp. 28-33.

⁴ 4th Report, *Municipal Finances*, pp. viii-xi.

CHAPTER III

LIMITATION OF INDEBTEDNESS SINCE 1913

THE "complete revision of the laws relating to municipal indebtedness," urged by the director of the bureau of statistics in 1912, was accomplished by the legislature in 1913. The measures enacted in that year went into effect on January 1, 1914, and provided Massachusetts with probably the most advanced legislation of its kind in the United States at the time. They were designed principally to eliminate the following evils of local financial administration: (1) borrowing for current purposes; (2) excessive borrowing in anticipation of taxes, thus necessitating renewals and refunding; (3) incurring liabilities, by the use of demand notes and in other ways, without making proper provision for their payment; (4) diversion of trust funds from their proper uses and failure to make provision for their restoration; and (5) the inefficient management of sinking funds.

The manner in which the legislature dealt with all but the last of these evils, and the results which have been obtained, will be considered in this chapter. The provisions relative to sinking funds will be treated in the following chapter on sinking funds and serial payments.

MUNICIPAL FINANCE LEGISLATION OF 1913

Turning attention, first, to the way in which it was sought to restrain municipalities from borrowing for current needs, we find that no attempt was made in the finance legislation of 1913 to define the term "current expenses" for prohibitory purposes. This was a recognition of the impossibility of framing a definition of this type of expenditure that will be adequate under all conditions. Instead, the legislature attacked the problem by specifying the purposes and also the length of time for which debt might properly be incurred, and then prohibiting unconditionally borrowing for any other purpose.

As regards the purposes for which money might be borrowed under the act of 1913, we find that they were divided into two classes on the basis of a debt limit laid down in the law. Certain purposes were designated as being within the debt limit; others were exempted from it. The debt limit for cities was fixed at two and one-half per cent, and for towns at three per cent, on the average of the assessors' valuations of the taxable property for the three preceding calendar years, allowance to be made for all abatements granted previously to December 31 of the preceding year.¹

Cities and towns were permitted to borrow, within the prescribed debt limit, for the following purposes and for the periods of time specified:²

1. For the construction of sewers for sanitary and surface drainage purposes and for sewage disposal, thirty years.
2. For acquiring land for public parks, . . . thirty years.
3. For acquiring land for, and the construction of, schoolhouses or buildings to be used for any municipal purpose, including the cost of original equipment and furnishing, twenty years.
4. For the construction of additions to schoolhouses or buildings to be used for any municipal purpose, including the cost of original equipment and furnishing, . . . twenty years.
5. For the construction of bridges of stone or concrete, or of iron superstructure, twenty years.
6. For the original construction of streets and highways or the extension or widening of streets or highways, including land damages and the cost of pavement and sidewalks, . . . ten years.
7. For the construction of stone, block, brick or other permanent pavement of a similar lasting character, ten years.
8. For macadam pavement, . . . five years.
9. For the construction of walls or dikes for the protection of highways or property, ten years.
10. For the purchase of land for cemetery purposes, ten years.
11. For such part of the cost of additional departmental equipment as is in excess of twenty-five cents per one thousand dollars of the preceding year's valuation, five years.
12. For the construction of sidewalks of brick, stone, concrete or other material of similar lasting character, five years.
13. For connecting dwellings or other buildings with public sewers, when a portion of the cost is to be assessed on the abutting property owners, five years.

¹ Acts of 1913, Ch. 719, Sec. 12.

² *Ibid.*, Sec. 5.

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14. For the abatement of nuisances in order to conserve the public health, five years.

15. For extreme emergency appropriations involving the health or safety of the people or their property, five years.

From time to time since 1913 certain amendments, involving consolidations and eliminations as well as additions, have been made to this list, without, however, altering the principle laid down in the original legislation. In particular, the objects mentioned under numbers 14 and 15 have been dropped; and two wholly new objects for which debts may be contracted have been added. For the present statutory provisions regarding borrowing within the debt limit readers are referred to Appendix A at the conclusion of this chapter.

In addition, the act of 1913 permitted municipalities to borrow, outside the debt limit, for the following purposes:¹

1. For temporary loans in anticipation of revenue, or for the payment of any land damages or any proportion of the general expenses of altering a grade crossing, or any proportion of the expense of constructing a highway in anticipation of reimbursement by the commonwealth, or a loan in anticipation of a bond issue, one year.

2. For establishing or purchasing a system for supplying the inhabitants of a city or town with water, or for the purchase of land for the protection of a water system, or for acquiring water rights, thirty years.

3. For the extension of water mains and for water departmental equipment, five years.

4. For establishing, purchasing, extending or enlarging a gas or electric lighting plant within the limits of a city or town, twenty years; but the indebtedness so incurred shall be limited to an amount not exceeding in a town five per cent and in a city two and one-half per cent of the last preceding assessed valuation of such town or city.

5. For acquiring land for the purposes of a public playground, thirty years; but the indebtedness so incurred shall be limited to an amount not exceeding one-half of one per cent of the last preceding assessed valuation of the city or town.

Borrowing for any other purpose, or for a longer period than that specified in the act, and the refunding of any debt, were definitely prohibited.² These items have also been altered somewhat by amendment since 1913, and their range has been considerably extended. The complete list of purposes for which debts

¹ *Ibid.*, Secs. 3, 4, 6, 9.

² *Ibid.*, Secs. 7, 15.

may be incurred at the present time outside the debt limit is furnished in Appendix B of this chapter.

As already indicated,¹ the legitimacy of temporary borrowing in anticipation of revenue was recognized in the legislation of 1913; but the legislature sought to remedy the abuses which had crept into the practice by authorizing such loans, not merely in anticipation of taxes, as provided in the earlier law, but "in anticipation of the revenue of the financial year in which the debt is incurred," and by limiting the loans "to an amount not exceeding . . . the total tax levy of the preceding financial year, together with the bank, corporation, and street railway tax received during the preceding financial year."² Such loans were to be paid within a year, out of the revenue in anticipation of which they were issued, and they could not be renewed.

Except for Boston, limitation of the tax levy was not continued by the legislation in 1913. In the case of that city, however, the existing limit was retained. That is, taxes assessed in Boston on property, exclusive of state and county taxes, and of amounts legally required to be raised on account of the city's debt, were not to exceed "ten dollars and fifty-five cents on every one thousand dollars of the assessors' valuation of the taxable property therein for the preceding three years," after deducting all abatements allowed thereon previously to December 31 of the year preceding the assessment.³ For all other cities, limitation of the tax

¹ See item no. 1 in the list of purposes for which debt might be incurred outside the debt limit.

² Acts of 1913, Ch. 719, Sec. 3. By Ch. 26, Acts of 1918, the state income tax was included in the total against which temporary loans might be incurred. See further pp. 56, 57.

³ *Ibid.*, Sec. 18. This limit prevailed for Boston until 1921, but for that year it was raised to \$11, and thereafter until 1933 it was fixed annually by the legislature, reaching \$19 in 1932. In 1933, instead of imposing a tax limit, the legislature adopted an appropriation limit of \$36,750,000 (Acts of 1933, Ch. 159), hoping thereby to place a more effective check upon municipal expenditures, which were increasing rapidly. But in 1934 it reverted to the tax limit, fixing it at \$17 for that year (Acts of 1934, Ch. 201); and in 1935 still a third method was employed by the state for attempting to control the city's expenditures, namely, fixing the tax rate. By Ch. 284, Acts of 1935, the tax rate for Boston was set at \$37.10 on the actual valuation of taxable property for that year.

It should be noted that the tax limit applies only to funds to be devoted to regular municipal purposes and does not include appropriations for various school purposes. The latter are fixed by separate limits.

levy was made optional by the provision that, after a public hearing regarding the matter, any city might provide for such a limit by ordinance.¹ The precise limit was to be specified in the ordinance and was to be calculated on the same basis as for Boston. The limit so established might at any later date be nullified or modified by the city government.

Relative to demand notes outstanding and to trust funds which had been used, cities and towns having such liabilities were required to provide for payment of the notes and for restoration of the trust funds in the tax levy for 1914, if such provision were reasonably practicable.² If to raise the amounts necessary by taxation in that year would impose too great a burden, cities and towns were permitted to borrow for the purpose for a period not to exceed 15 years.³ Payment for loans contracted for this purpose was to be provided for by the serial payment plan.⁴ Henceforth trust funds and cemetery perpetual care funds, unless otherwise provided or directed by the donor, were to be deposited in savings banks or invested in securities which were legal investments for savings banks.⁵ The issue of demand notes was prohibited thereafter.⁶

Two further measures incorporated in the indebtedness legislation of 1913 should also be mentioned. One was designed to reduce delinquency in tax payments; the other provided means whereby the legislature might have access to reliable information regarding the financial status of municipalities petitioning for special authority to borrow outside the debt limit.

Prior to 1913 the law was merely permissive and not obligatory regarding coercive measures to be taken by cities and towns to enforce prompt payment of taxes. As a consequence, large amounts of taxes remained unpaid, thus compelling cities and towns to re-

¹ *Ibid.*, Sec. 19.

² Acts of 1913, Ch. 634, Sec. 1.

³ *Ibid.*, Sec. 2.

⁴ *Ibid.*, Sec. 3.

⁵ Acts of 1913, Ch. 719, Sec. 17. By Acts of 1916, Ch. 101, this provision was amended so as to include trust companies incorporated under the laws of the commonwealth, or national banks, as depositories for trust funds.

⁶ *Ibid.*, Sec. 14.

sort to borrowing to meet current needs.¹ This weakness in financial administration the legislature endeavored to correct in 1913 by enacting the provision that

Taxes shall be payable in every city and town and in every fire, water, watch or improvement district in which the same are assessed, not later than the fifteenth day of October of each year, and on all taxes so assessed remaining unpaid after the first day of November interest shall be paid at the rate of six per cent per annum from the 15th day of October until such taxes are paid.²

This requirement applied to future assessments; further legislation required the payment of interest upon taxes which had become delinquent prior to 1913.³

The arrangement whereby the legislature might have access to reliable information regarding the financial condition of municipalities was conceived of as a device for keeping down the volume of special legislation authorizing cities and towns to borrow outside the debt limit. It was believed that to a considerable extent the facility with which the legislature had granted petitions for special legislation releasing municipalities from the debt limit of the general law arose from the lack of reliable, exact information regarding the needs and financial condition of the municipalities. As a rule only the biased testimony of local officials accompanied the petitions for special legislation when they were presented to the legislature, and since it was the business of no one in particular to examine critically these statements and statistics, they could not readily be refuted. The new legislation, while it did not prohibit cities and towns from petitioning for similar exemptions from the provisions of the law, provided that the legislature should have the benefit of an impartial statement of facts when passing upon petitions for special acts. This was done by laying upon the director of the bureau of statistics the duty of examining all appeals for special authority to borrow outside the debt limit, and of transmitting to the legislative committee in charge of the matter

¹ House Doc. 1803 (1913), pp. 28-29.

² Acts and Resolves, 1913, Ch. 688, Sec. 1.

³ Acts of 1913, Ch. 688, Sec. 2; Ch. 824, Sec. 1.

information as to the financial condition of the petitioning municipality.¹ At the same time, it was expected that the enlarged borrowing power conferred upon the cities and towns by the legislation of 1913 would eliminate to a large extent the frequent appeals for special authority to borrow outside the debt limit.

It should be noted that, except for the limitation on the tax levy, the various provisions of the legislation of 1913 were not made applicable to Boston. They were not considered to be well adapted to the larger financial problems of a metropolis. Accordingly, that city remained subject to all general and special laws relative to it.²

AMENDMENTS

Experience under the legislation of 1913 revealed the necessity for a number of perfecting amendments in subsequent years, none of which, however, altered the main features of the original acts. Only the amendments of significance for our purpose will be considered here.

In 1915 the provisions of the law of 1913 relative to the borrowing power of cities and towns "within the limit" and "outside the limit" of indebtedness were made applicable to fire, water, light, watch and improvement districts.³ The purpose of this was to eliminate the frequent appeals to the legislature by districts for special legislation giving them authority to borrow whenever they wished to incur debts for legitimate purposes but not permissible under the law as it had previously existed. At the same time, the districts were prohibited from issuing demand notes and from establishing sinking funds for the payment of debts which might be contracted in the future. As in the case of the cities and towns, the serial payment method was prescribed, the payments for each loan to be arranged so as to decrease in amount during the period of the loan.⁴

With the passage of the state income tax law in 1916⁵ it seemed desirable to amend the law of 1913 in respect of the borrowing

¹ Acts of 1913, Ch. 677.

² *Ibid.*, Sec. 1. See further, Ch. VIII of this study.

³ Acts of 1915, Ch. 85.

⁴ See further, Ch. IV of this study.

⁵ Acts of 1916, Ch. 269. See also p. 153.

capacity of municipalities for temporary purposes. The law provided for the distribution of the receipts from the income tax among the cities and towns, and obviously it was only proper that the local governments should be allowed to include expected receipts from that source in the amounts that might legally be borrowed in anticipation of revenue. This was recognized by the legislature in 1918 by an enactment which empowered cities and towns to include the income received during the preceding financial year in calculating the aggregate revenue for the year against which temporary indebtedness might be incurred.¹

An important amendment was passed in 1923 providing that "only such items may in any one year be authorized to be borrowed as exceeds 25¢ per \$1,000 of the valuation of the city or town for the preceding year."² In this way cities and towns were compelled to contribute annually a small amount from revenue toward permanent improvements, thereby making it impossible for them to rely wholly upon loans. As will become more apparent later, this was a significant step in the direction of the pay-as-you-go policy of municipal finance.

Thus the whole matter of debt creation by cities, towns, and districts was comprehensively dealt with by the legislation of 1913 and subsequent acts. In fact, "it might safely be said that this subject is treated more thoroughly in Massachusetts than in any other state."³

RESULTS OF LEGISLATION OF 1913

We shall proceed now to a consideration of the results of the various foregoing provisions. Accordingly, the following aspects of local finance since 1913 will be examined: (1) the manner in which current expenditures have been met; (2) the trend of debt; (3) the handling of trust funds.

Attention will be directed, first, to the way in which the cities and towns have provided for their current expenditures since 1913. Data bearing upon this point appear in the following

¹ Acts of 1918, Ch. 26, Sec. 1.

² Acts of 1923, Ch. 338.

³ Commercial and Financial Chronicle, State and Municipal Compendium, Pt. I, June 26, 1931, p. 37.

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table. They show the relationship between the total charges against revenue, i.e. for maintenance of the various departments of local government, for interest, and for maturing debt, and the total revenue available for those purposes, for the period from 1913 to 1932, the last year for which official data are available.

EXCESS OR DEFICIENCY OF REVENUE: ALL MUNICIPALITIES, 1913-1932¹

Year	Revenue for Current Charges ²	Current Charges against Revenue ³	Excess (+) or Deficiency (-) of Revenue
1913	\$98,185,973	\$96,178,999	+\$2,006,974
1914	101,393,772	100,083,599	+ 1,310,173
1915	109,205,729	104,558,163	+ 4,647,566
1916	116,455,697	108,916,570	+ 7,539,127
1917	117,707,347	117,706,774	+ 60,573
1918	133,258,863	127,506,254	+ 5,752,609
1919	154,971,250	143,992,606	+10,978,644
1920	172,429,484	168,911,101	+ 3,518,383
1921	185,599,972	181,818,155	+ 3,781,817
1922	200,027,743	189,505,998	+10,521,745
1923	213,921,220	198,797,074	+15,124,146
1924	226,429,849	211,204,755	+15,225,094
1925	234,651,995	219,016,567	+15,635,428
1926	261,579,789	235,940,399	+25,639,390
1927	264,912,102	244,025,542	+20,886,560
1928	271,629,356	252,264,753	+19,364,603
1929	281,851,281	261,857,238	+19,994,043
1930	294,544,521	274,675,465	+19,869,056
1931	290,523,610	285,395,173	+ 5,128,437
1932	284,173,461	298,704,118	-14,530,657

(1) Compiled from 8th to 27th Reports, Municipal Finances.

(2) Includes all cash receipts, except taxes and other revenue assessed for the state, county, or district purposes, receipts from loans or from the sale of real estate, and certain other receipts that are to be specifically applied to outlay or capital accounts.

(3) Includes all expenditures for maintenance of the several departments, for interest, for maturing debt (exclusive of loans paid from sinking funds), and for sinking fund requirements.

A word of caution is necessary, however, in connection with the interpretation of these figures of revenue and charges against revenue. It should be recognized that they have comparatively little value for a single year. This arises from the fact that *Revenue for Current Charges* represents only cash receipts for the year.¹ It is usually impossible to collect all revenues in the year in which they accrue; hence cash receipts for any given year in-

¹ For a full discussion of the principle upon which these statistics of excess or deficiency of revenue are compiled and of the accounting problems involved see pp. 91-93.

clude not only the collections on account of that year but also such amounts as have been collected on account of previous years. Under normal conditions, the uncollected revenues of any year would, of course, be offset by the receipt during that year of uncollected items of preceding years; but varying degrees of efficiency with which revenues are collected, and, particularly, un-

NUMBER OF CITIES AND OF TOWNS OVER 5,000 POPULATION HAVING EXCESS OR DEFICIENCY OF REVENUE, 1913 TO 1932¹

Year	Cities		Towns		All Municipalities	
	Excess	Deficiency	Excess	Deficiency	Excess	Deficiency
1913	18	18	55	10	73	28
1914	19	17	60	16	79	33
1915	27	9	70	6	97	15
1916	32	4	74	2	106	6
1917	17	21	58	18	75	39
1918	19	19	58	14	77	33
1919	31	7	66	9	97	16
1920	15	23	57	18	72	41
1921	17	21	57	18	74	39
1922	35	4	70	5	105	9
1923	36	3	72	2	108	5
1924	34	5	77	2	111	7
1925	35	4	77	2	112	6
1926	38	1	78	1	116	2
1927	35	4	77	2	112	6
1928	30	9	75	3	105	12
1929	36	3	80	3	116	6
1930	30	9	77	6	107	15
1931	17	22	67	16	84	38
1932	3	36	44	39	47	75

(1) Compiled from 8th to 27th Reports, Municipal Finances. Does not include figures for towns under 5,000 population, inasmuch as they are not furnished in the annual reports on the statistics of municipal finances.

usual conditions for which tax collectors are not responsible, such as industrial depressions, may result in collections for any one year or shorter period being below the average for a longer period. For that reason, the statistics of revenue for current charges given here are significant only for a series of years. This suffices, however, for our purpose.

Without, then, attempting a year to year analysis, we find that the figures of excess and deficiency of revenue since 1913 reveal two exceedingly significant tendencies.

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In the first place, they show that except in one year, 1932, the cities and towns in the aggregate did not fail during that period to provide sufficient revenue for current needs. To be sure, deficits appeared in individual communities in certain years, but for the most part they were the result of failure to collect taxes or to use accumulated surpluses rather than of spending in excess of appropriations.¹ Moreover, as is indicated by the table on page 59, the proportion of cities and large towns having deficits was comparatively small and also fell off markedly after 1921. In view of the widespread practice on the part of the local governments prior to 1913 of borrowing for current purposes, this was a gratifying development, and was in large part directly attributable to the act of that year, which, it will be recalled, prohibited all borrowing except for designated purposes.

In the second place, it is clearly apparent from these figures that the municipalities in general not only raised sufficient revenue for current charges but also provided considerable amounts in excess. This indicates that some of the annually recurrent outlays were included in the tax levy, instead of being financed by loans. In other words, the cities and towns of Massachusetts have tended, in recent years, to move noticeably in the direction of the pay-as-you-go policy of finance. For the period as a whole from 1913 to 1932, \$202,843,776 were raised by the local governments in excess of the amounts needed for current expenses. From 1923 to 1930 inclusive, it will be noted, the annual surpluses were unusually large. The excess of revenue over current charges for those years was approximately \$19,000,000 annually.

Unfortunately, the gratifying tendencies just noted were reversed with the onset of the present economic depression, so that in 1931 the excess of revenue over current charges dropped sharply and in 1932 was replaced by a deficit of nearly \$15,000,000. In these years, also, the number of municipalities having deficits in revenue rose abruptly. Of the 122 cities and large towns nearly two-thirds reported deficits in 1932. Thirty-six of the 39 cities showed deficiencies of revenue collections in 1932 totalling \$15,410,111. There was also a deficiency in 39 of the

¹ 21st Report, Municipal Finances, p. ii.

83 towns over 5,000 in population, but this was offset by an excess of revenue in 44 other large towns, so that there was an excess of \$383,499 for the entire group. As a whole, the small towns also collected more than enough to meet current charges against revenue, thus helping to reduce the net deficiency for all municipalities to \$14,530,657 for 1932.¹

Large increases in municipal expenditures in the face of declining receipts were responsible for this altered relationship between revenue and current charges against revenue. It will be noted that the high point of revenue for current charges was reached in 1930, and that substantial shrinkages appeared thereafter, while current charges against revenue continued to grow without interruption.

For the most part, the increases in current expenditures were unavoidable, for beginning about 1931 economic conditions threw additional and virtually inescapable financial burdens upon the cities and towns. Thus, charities and soldiers' benefits alone were larger in 1932 than in 1931 by the amount of \$18,611,717, or nearly 54 per cent. But despite large imperative increases in the expenditures of some departments of local government in the past two or three years, substantial economies in other departments have been a significant offsetting factor, so that the total expansion in current charges for revenue in 1932 over the previous year was kept down to \$13,308,945, an increase of 4.66 per cent.²

However, it should be remembered that figures for one year alone do not furnish a basis for final conclusions as to whether the local governments are actually living within their income. As already pointed out, statistics of revenue for current charges as reported for the Massachusetts municipalities are compiled on a cash basis; that is, they show only the amounts of cash received annually, and therefore do not reveal the sums accruing but which for some reason or other have not yet been collected. In 1932, owing to the unusual economic conditions, revenues receivable, chiefly in the form of delayed tax payments, greatly exceeded the actual collections, but for the most part the uncollected items were thoroughly good claims, ultimate payment of which may be ex-

¹ 27th Report, Municipal Finances, p. iv.

² *Ibid.*, p. ii.

pected. Cash deficiencies become real deficiencies only if they are not finally paid. Final judgment as to the present developments in this phase of municipal finance in Massachusetts must therefore be suspended for several years.

Without question the legislation of 1913 is primarily responsible for the sound policy, pursued in general by the cities and towns of Massachusetts since that time, of meeting their current needs out of current revenue. In particular, the greater emphasis that has been placed upon the pay-as-you-go policy by the municipalities since 1923 is in large part the result of legislative encouragement. It has already been noted that an act of 1923 required the cities and towns to pay a small part of the cost of permanent improvements out of revenue.¹ In 1924 the legislature gave further impetus to that practice. In that year Governor Cox recommended that all special acts authorizing borrowing should require an initial contribution from taxes; also that the period of such loans should be shortened.² Accordingly, special legislation of this nature in 1924 stipulated that not less than 10 per cent of the authorized loan should be raised at once by taxation; and if the nature of the loan was such that, under the general law, it might run for twenty years, the borrowing period was reduced to fifteen years.³ This general policy of requiring an initial contribution from current revenue for all loans made under special authority, and of cutting down the length of time which such loans may run, has been followed in subsequent years,⁴ and is reflected in the general tendency of revenue for current charges to exceed charges against revenue by a wide margin.

In this connection, it is of interest to note that in recent years many towns and some cities have appropriated directly from taxes an even larger proportion of the cost of improvements than is legally required under the general law, thus going farther in the direction of the pay-as-you-go policy than is absolutely necessary.⁵

¹ See p. 57.

² Senate Doc. 1 (1924), p. 9.

³ 17th Report, Municipal Finances, p. v.

⁴ 18th Report, Municipal Finances, p. v; 24th Report, Municipal Finances, p. ii.

⁵ 22nd Report, Municipal Finances, p. iv; 24th Report, Municipal Finances, p. iii; House Doc. 1240 (1923), p. 17.

A significant consequence of the increasing emphasis that has been placed in recent years upon the principle of meeting out of the tax levy a larger part of the cost of permanent improvements than previously has been a decrease in the proportions of the charges against revenue which are needed for debt purposes, i.e. for interest and for payments upon principal. This is revealed in

CHARGES AGAINST REVENUE FOR MAINTENANCE, INTEREST, AND DEBT REQUIREMENTS BY PERCENTAGES, 1913 TO 1932¹

Year	Cities			Towns over 5,000 Population		
	Maintenance	Interest	Debt Requirements	Maintenance	Interest	Debt Requirements
1913	72.3	14.9	12.8	77.5	9.5	13.0
1914	72.8	14.7	12.5	78.0	9.0	13.0
1915	72.4	14.6	13.0	80.1	8.1	11.8
1916	72.7	14.2	13.1	79.9	7.9	12.2
1917	74.5	13.4	12.1	80.4	7.7	11.9
1918	75.2	13.0	11.8	81.4	7.6	11.0
1919	77.6	11.6	10.8	84.0	6.5	9.5
1920	79.9	10.4	9.7	86.0	5.9	8.1
1921	80.3	10.1	9.6	86.1	6.1	7.8
1922	79.1	9.7	11.2	85.9	5.8	8.3
1923	80.6	9.4	10.0	85.7	5.8	8.5
1924	80.5	9.1	10.4	85.4	5.7	8.9
1925	80.7	8.9	10.4	84.7	6.0	9.3
1926	80.3	8.4	10.8	84.9	5.9	9.7
1927	80.8	8.8	10.9	84.4	6.0	9.1
1928	80.7	8.3	11.0	84.5	5.9	9.6
1929	80.7	8.7	10.6	84.2	6.2	9.6
1930	81.2	7.9	10.9	85.0	5.5	9.5
1931	81.7	7.4	10.9	85.0	5.1	9.9
1932	81.0	8.1	10.9	84.2	5.9	9.9

(1) Compiled from 8th to 27th Reports, Municipal Finances. Data are not yet available for the small towns.

the table above. The figures of this table indicate that, relatively to maintenance charges, interest and debt requirements have, in general, declined since 1913 for the cities and large towns. Stated otherwise, although all charges against revenue have increased in absolute amounts, a considerably smaller part of the taxpayers' dollar is being devoted to interest and to the payment of debt at the present time than in 1913.

The trend of local debt since 1913 will now be examined. For

this purpose, use will be made of the figures of net funded debt which appear in the table on page 65.

It is very evident from these figures that the period which they cover falls naturally into five parts: 1913 to 1920, 1920 to 1926, 1926 to 1929, 1930 and 1931, and 1932. The municipal indebtedness act of 1913 did not go into effect until 1914; consequently the former year does not fall within the field of our investigation. It should be noted, however, that the comparatively large increase of debt for that year — \$9,258,632, as compared with an increase of \$5,466,294 for 1912¹ — was in part the result of the municipal indebtedness act. Up to January 1, 1914, cities and towns might still contract debt under the provisions of the old statutes, and therefore they hastened to borrow for current expenses and to adjust old accounts before the more stringent acts of 1913 should become effective. At the same time, unusually large debts were incurred that year for extraordinary improvements.²

For the period from 1913 to 1920 the increase of debt was extremely moderate — \$7,176,834, or 3.9 per cent. This compares very favorably with an increase of \$32,750,115 for a similar length of time immediately prior to 1913.³ Important factors during these years were, of course, war-time measures of economy and the general suspension of public improvements from 1917 to 1919. In fact, in 1917 and 1918 there were decreases of debt, instead of the annual increases which had been the rule since 1901.

The tendency of debt to increase only moderately disappeared, however, in 1920, and during the next six years the annual increases were unprecedented. The increase for 1924 reached the high figure of \$16,729,407. And in the period as a whole from 1920 to 1926, aggregate net debt grew by \$79,135,648, or 41 per cent. This was an alarming increase for so short a period of time. In part it represented expenditures for necessary public undertakings which were postponed during the World War; but to a considerable extent it reflected the reckless and extravagant spending of the post-war period.⁴

Thereafter, until 1930, the annual increases became much

¹ See p. 33.

² See p. 33.

³ 9th Report, Municipal Finances, p. xii.

⁴ See further, Ch. IX, this study.

NET DEBT, ASSESSED VALUATION, AND DEBT RATIO FOR ALL CITIES AND TOWNS OF MASSACHUSETTS, 1913-1932¹

Year	Net Funded Debt ²		Assessed Valuation		Debt Ratio
	Amount	Yearly Increase	Amount	Yearly Increase	
1913	\$183,749,013	\$9,258,632	\$4,471,736,046	\$222,036,191	4.11
1914	189,661,203	5,912,190	4,644,814,610	173,078,564	4.08
1915	194,788,267	5,127,064	4,769,860,495	125,045,885	4.08
1916	196,301,223	1,512,956	4,962,238,008	192,377,513	3.96
1917	194,483,095	1,818,128 ³ (Decrease)	4,538,998,071	423,239,937 (Decrease)	4.28
1918	185,623,247	8,859,848 (Decrease)	4,738,976,589	199,978,518	3.92
1919	188,212,790	2,589,543	4,903,775,948	164,799,359	3.84
1920	190,925,837	2,713,047	5,354,086,810	450,310,862	3.57
1921	201,741,807	10,815,970	5,546,646,240	192,559,430	3.64
1922	214,973,025	13,231,218	5,715,377,344	168,731,104	3.76
1923	229,966,970	14,993,945	5,978,152,428	262,775,084	3.85
1924	246,696,377	16,729,407 ⁴	6,300,660,670	322,508,242	3.92
1925	258,627,778	11,931,401	6,637,842,327	337,181,657	3.90
1926	270,061,485	11,433,707	6,910,553,302	272,710,975	3.91
1927	279,031,594	8,970,109	7,086,001,958	175,448,656	3.94
1928	281,950,246	2,918,652	7,171,178,741	85,176,783	3.93
1929	284,131,802	2,181,556	7,489,667,060 ⁵	318,488,319	3.79
1930	301,710,107	17,578,305	7,563,793,886	74,126,826	3.99
1931	316,650,623	14,940,516	7,442,709,478	121,084,408 (Decrease)	4.25
1932	311,892,390	4,758,233 (Decrease)	7,209,928,247	232,781,231 (Decrease)	4.33

(1) Compiled from 27th Report, Municipal Finances, p. xx.

(2) Gross debt less sinking fund accumulations. *Net debt* as shown in this table includes both *general* and *enterprise debt*, the distinction being that *general debt* represents loans which, as a rule, are paid out of taxes, whereas *enterprise debt* is retired from earnings of the enterprise for which the loan was contracted.

(3) The state income tax, assessed for the first time in 1917, removed intangible property from local valuation and accounts for this decrease.

(4) Includes the amounts which certain municipalities were obliged to borrow in 1924 because of the assessment upon them of \$1,500,000 on account of Essex County Tuberculosis Hospital and \$4,379,241.27 on account of Hampden County Memorial Bridge, both of which had formerly been county debts. Had it not been for these assessments, the increase for the year would have been considerably less. See 18th Report, Municipal Finances, pp. iv, v.

(5) Includes the valuation placed upon motor vehicles for the purpose of fixing the motor vehicle excise tax, which was added in 1929, for the first time, to the local assessors' valuations in determining the borrowing capacity of cities and towns. Prior to 1929, the value of automobiles was included in other assessable property; but the motor vehicle excise tax valuation of \$360,372,829 in 1929 greatly exceeded the amounts for which automobiles were previously assessed as personal property and partly explains the increase in assessed valuation for that year. See 23rd Report, Municipal Finances, p. iii.

smaller. In 1929 the amount of debt accumulated was only \$2,181,556. For the years from 1926 to 1929, the increase was \$14,070,317, or 5 per cent.

Unfortunately, the encouraging tendency for the rate of debt growth to slacken in 1928 and 1929 was sharply reversed in 1930, when the total net debt advanced by the huge sum of \$17,578,305. This enlarged the debt burden by 6.2 per cent. In 1931 another large increase took place — \$14,940,516, which raised the total net debt to the large figure of \$316,650,623. It is probable that to a considerable extent these unusually large increases reflected a tendency on the part of the local governments to undertake public works during the period of depression, often as relief measures, and to that extent represented a temporary condition.

As regards the trend of debt, 1932 presents a sharp contrast to the years immediately preceding. In that year, for the first time since 1918, the net funded debt of the cities and towns decreased, the reduction amounting to nearly \$5,000,000. The actual decrease for ordinary purposes was, however, even more than is apparent from the figures, for the city of Boston incurred new debt in 1932 for a traffic tunnel in the amount of \$5,900,000, which was an outlay for an extraordinary project and therefore might very properly be considered apart from the ordinary debt transaction of the other cities and towns.¹

For the period as a whole from 1913 to 1932, the growth of local debt was \$128,143,377, or 70 per cent. Per capita debt for all cities and towns rose from approximately \$53 in the former year to slightly more than \$71 in the latter.

It is of interest to note, however, that the increase of debt did not take place at the same rate for the cities, the large towns (over 5,000 population), and the small towns (under 5,000 population). This is shown by the following figures for selected years:

AGGREGATE NET DEBT¹

Year	Cities	Large Towns	Small Towns
1913	\$154,860,601	\$22,166,156	\$6,722,255
1915	169,296,275	19,730,135	5,456,685
1920	166,180,346	19,678,512	5,066,979
1925	215,842,333	34,360,072	8,425,373
1930	248,933,217	41,743,337	11,033,553
1932	261,491,390	38,843,680	11,557,320

(1) Compiled from Reports, Municipal Finances.

¹ 26th Report, Municipal Finances, p. iv.

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On the basis of these figures, it appears that for the entire period the indebtedness of each class of municipalities increased as follows: cities — \$106,630,789, or 69 per cent; large towns — 16,677,524, or 75 per cent; small towns — \$4,835,065, or 70 per cent. Thus the growth for the large towns was somewhat greater proportionately than for the cities and small towns. These figures also indicate that by far the greater part of the total municipal debt is accounted for by the cities and large towns.

At this point it becomes necessary to consider several emergency finance measures enacted in 1933 which enlarged municipal borrowing power. The purpose of these measures was to assist cities and towns in dealing with the difficult financial situations confronting them as a consequence of the economic depression.

One act¹ was designed to enable local governments to borrow on the basis of uncollected tax items, which, as we have already seen, were in large measure responsible for the deficiencies in revenue for current charges in a number of municipalities in 1932. By this act, cities and towns were permitted to borrow from the commonwealth for ordinary maintenance expenses up to the amount of tax titles held by them, such borrowing to be completed before July 1, 1935, and debt thus contracted to be repaid not later than July 1, 1936. The loans were to be made by means of one-year notes, with the privilege of renewal, and bearing a rate of interest of not less than four per cent, the notes to be purchased by the commonwealth at their face value. Debt incurred under this act was to be considered as outside the legal limit. In order to provide funds for these loans to municipalities the commonwealth was authorized to borrow up to \$10,000,000, the debt thus contracted to mature not later than November 30, 1939. (The amount was increased to \$16,000,000 in 1934 and to \$20,000,000 in 1935.²)

For administering municipal loans of this type an emergency finance board was created, consisting of the state treasurer, the director of accounts, and three citizens of the commonwealth appointed by the governor. The grant of a loan under the act was made contingent upon the approval of the board after investigating the financial affairs of the municipality seeking to borrow.

¹ Acts of 1933, Ch. 49.

² 28th Report, Municipal Finances, p. iv.

Another law of 1933¹ authorized any city or town to borrow during that year, either from the commonwealth or elsewhere, and outside the debt limit, "a sum not exceeding the excess of the amount expended by such city or town in the year 1932 over that expended by it in the year 1929 for public welfare . . . and soldiers' relief," such loan to be for a period not longer than five years. The approval of the emergency finance board already referred to was also required for a loan of this type by the commonwealth. Power was vested in the board to investigate the administration of public relief in any city or town seeking a loan under the act, and to withhold its approval until its recommendations should be complied with satisfactorily. To provide the necessary funds for advancing money to municipalities under this law, the commonwealth was permitted to borrow up to \$30,000,000 on bonds or notes payable not later than November 30, 1940.

A third act of 1933² permits municipalities to engage in any public works project authorized under the National Industrial Recovery Act, provided the project is approved by the emergency finance board and the governor and "in case the federal government is obligated to make a grant therefor." For the purpose of participating in such projects the cities and towns are empowered to "borrow from the United States of America . . . such sums as may be fixed by the board," and also to borrow "for such terms and carrying such rates of interest as may be fixed by the board." The total amount of debt that may be incurred in this way is limited to "one per cent on the average of the assessors' valuation of its taxable property for the three preceding years," and the amount that may be borrowed outside the debt limit is restricted to "one per cent of the last preceding assessed valuation of such city or town." As bases for granting or withholding its approval of such loans, the emergency finance board is directed to take into consideration, among other things, the necessity of the proposed project, the ability of the city or town to finance it, the extent to which the carrying out of the project will relieve unemployment, and the extent to which the maintenance of the completed project

¹ Acts of 1933, Ch. 307.

² Acts of 1933, Ch. 366.

will affect the expenditures and the tax burden of the city or town.

Finally, an act which established an appropriation limit of \$36,750,000 for the city of Boston for 1933¹ carried the provision that the city might borrow, outside its debt limit, for such emergency expenditures in excess of the appropriation limit as might be approved by a board composed of the attorney general, the state treasurer, and the director of the division of accounts.

It is of interest to note that all of these acts contained safeguards designed to prevent ill-considered and excessive borrowing by the local governments. At the same time, the provisions were sufficiently liberal to enable the local communities to obtain the funds necessary for legitimate purposes.

In the light of the greater borrowing power enjoyed by the cities and towns in 1933, we may now examine the debt figures for that year. On January 1, 1934, the total net funded debt — i.e., general debt and enterprise debt — stood at \$316,745,605, whereas on January 1, 1933, it was \$311,666,745, indicating an advance for the year of \$5,078,860, or 1.63 per cent.² However, there was added to the general debt in 1933 the following amounts under authority of the new legislation: \$5,626,564 of emergency finance loans issued on account of tax titles under Chapter 49; \$12,212,053 of municipal relief loans under Chapter 307; and \$4,100,000 of a public welfare loan under Chapter 159. For the purpose of ascertaining the real increase in the debt burden, the tax title loans may be excluded, inasmuch as they are offset by good assets. Aggregate relief loans issued in 1933 amounted therefore to \$16,312,053. But at the same time there was a reduction in loans for general permanent improvements of \$17,692,261, so that in reality there was a decrease in general debt for that year of \$1,380,208.³ The growth in municipal debt for 1933 is therefore attributable in large part to the demands for relief.

¹ Acts of 1933, Ch. 159.

² The figures given here refer to the calendar and not to the fiscal year, as in the table on page 65. Prior to 1935 the fiscal and calendar year were identical only for towns; for cities the fiscal year varied from November 30 to January 31; but legislation of 1934 provided that, beginning with 1935, the financial year for all cities should be uniform and also end December 31.

³ 27th Report, Municipal Finances, p. iv.

Turning now to the relationship between net debt and assessed valuation of the cities and towns since 1913, we find, on the basis of the figures on page 65, that from 1913 to 1920 assessed valuation increased in general at a more rapid rate than the debt burden. Consequently, with but one exception, the debt ratio moved steadily downward from 4.11 in 1913 to 3.57 in 1920. The exception was 1917, when the ratio stood at 4.28, largely on account of the decrease in valuation which followed upon the removal of intangible property from local taxation under the provision of the state income tax law of 1916.¹ But the fall in the debt ratio ceased in 1920. From that year until 1927, the rate of debt increase exceeded that of assessed valuation, with a consequent rise in the ratio. A downward tendency again appeared in 1928; and in 1929, principally because of a large increase in valuation for that year, the ratio fell sharply. But an abrupt reversal of this trend took place in 1930, when, owing to unfavorable factors affecting property values and also to a very large increase in debt, the ratio jumped to 3.99. By 1932 it had risen to 4.33, the highest point since 1913.

It is important to recognize that to a considerable extent the growth of local debt since 1913 has been the result of special legislation permitting borrowing outside the debt limit. Thus, a legislative committee appointed to investigate municipal expenditures and taxation reported in 1923 that

an examination of the situation discloses the fact that if it had not been for authority given by the legislature in special acts permitting borrowing outside the debt limit, there would have been a material reduction in the aggregate net debt of the cities and towns in the state.²

Governor Cox, in his address to the general court in 1924, also declared that "special legislation has been sought to exceed the debt limit and in many cases granted with a degree of liberality that might well be questioned."³ And the tax commissioner is authority for the statement that the "increase is clearly attributable to special acts which authorized borrowing outside the debt limit. . . . If the legislature wishes to stop this increase, greater consid-

¹ Acts of 1916, Ch. 269.

² House Doc. 1240 (1923), pp. 15, 16.

³ Senate Doc. 1 (1924), p. 8.

eration must be given to petitions for special legislation."¹ In this connection, it is of interest to note that the 1931 legislature authorized borrowing outside the debt limit to the amount of \$13,739,000. This included \$6,000,000 for Boston alone. The unusually low interest rates, in some cases as low as 1.21 per cent, were a significant factor in the situation that year. In the opinion of the director of accounts, borrowing was then "being made too attractive by the bankers."² On January 1, 1934, slightly more than 45 per cent of the total general debt of the cities and towns was outside the limit.³

It can not be assumed, of course, that no part of this debt should have been incurred. Nevertheless, there is reason to believe that the legislature has not in all cases scrutinized with sufficient care the petitions submitted to it for special borrowing power.⁴ The result is that the advantages of the debt limit of the general law have been in part nullified. In short, the problem of special legislation, which was so troublesome prior to 1913, and which was an important factor in the breakdown of the earlier municipal indebtedness legislation, is still present.

To some extent, also, the debt limit, instead of discouraging borrowing, seems to have induced it. On this point, the director of accounts has said that "unfortunately certain of our cities and towns operate on the theory that a debt limit was meant to show how much debt a municipality should have rather than the amount that should not be expended."⁵

Despite the substantial increase of municipal indebtedness since 1913, a distinct improvement has taken place in the debt condition of a number of communities. Even as early as 1919 the director of the bureau of statistics was able to report that "in the seven years in which the Municipal Indebtedness Act of 1913 has been in operation, our cities and towns have emerged from a chaotic financial condition to one of sound business administration."⁶

¹ Tax Commissioner's Report, 1927, pp. 135, 138.

² Boston Evening Transcript, June 23, 1931, pp. 1, 9.

³ Calculated from data in 27th Report, Municipal Finances, pp. xxi-xxvii.

⁴ House Doc. 1240 (1923), p. 17.

⁵ 20th Report, Municipal Finances, p. v.

⁶ 12th Report, Municipal Finances, pp. xii, xiii. See also House Doc. 1240 (1923), p. 16.

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And on January 1, 1934, 8 cities, 17 large towns, and a number of small towns reported less debt than in 1913.¹ Moreover, 64 small towns were without debt on January 1, 1934, as compared with

TRUST FUNDS USED BY MUNICIPALITIES, 1913-1932¹

	Aggregate	Cities	Towns over 5,000	Towns under 5,000
1913	\$445,170.16	\$232,290.79	\$111,699.81	\$101,179.56
1914	101,195.33	78,975.93	18,486.00	3,733.40
1915	96,129.73	78,950.93	13,561.00	3,617.80
1916	91,700.55	78,950.93	9,561.00	3,188.62
1917	89,272.07	78,950.93	8,349.12	1,972.02
1918	86,900.05	78,950.93	6,349.12	1,600.00
1919	84,226.05	78,950.93	4,349.12	1,275.00
1920	82,350.05	78,950.93	2,349.12	1,050.00
1921	79,950.93	78,950.93	.....	1,000.00
1922	79,900.93	78,950.93	.....	950.00
1923	53,600.93	52,750.93	.....	850.00
1924	52,584.93	51,734.93	.....	850.00
1925	52,434.93	51,734.93	.....	700.00
1926	52,434.93	51,734.93	.....	700.00
1927	52,234.93	51,734.93	.....	500.00
1928	52,234.93	51,734.93	.....	500.00
1929	52,234.93	51,734.93	.....	500.00
1930	51,734.93	51,734.93	.....	.....
1931	51,734.93	51,734.93	.....	.....
1932	51,734.93	51,734.93	.....	.....

(1) Compiled from 8th to 27th Reports, Municipal Finances.

45 in 1913. The following statement of the director of accounts is of interest in this connection. In 1931 he declared that

the policy of restricting loans to definite purposes and of limiting the period to within the life of the improvements, and also, the provisions requiring an initial contribution from revenue as a condition precedent to certain borrowings, have put the municipalities of this commonwealth in a better financial condition than those of any other state.²

The manner in which borrowed trust funds have been handled by the municipalities since 1913 requires only brief mention. Statistics indicating the extent to which funds have been restored appear in the table above. They show a striking reduction in 1914 of the amount of funds so used, and a further decrease

¹ Calculated from data in 8th and 27th Reports, Municipal Finances.

² 24th Report, Municipal Finances, p. iv.

since that time. In 1912 sixty-three communities reported indebtedness to trust funds on account of borrowing, whereas in 1916 only 16 were still guilty of this unsound practice. By 1921 the large towns had freed themselves entirely from indebtedness to trust funds; and the small towns accomplished the same objective by 1930. In 1934 there were only two municipalities which had not made full restitution of borrowed funds; and their total obligations were only \$51,734.93. Two cities alone were responsible for the whole amount. The legislation of 1913 may therefore be credited with having practically abolished this unsound financial practice.

It is clear, therefore, that the control over local borrowing power imposed by the legislation of 1913 and subsequent acts, strengthened, it must be said, by the invaluable counsel and assistance given to local officials by the division of accounts, has had several distinctly beneficial results. First of all, the unsound practice of borrowing for current purposes has been stopped. More than that, to a notable degree permanent improvements in recent years have been paid for out of current revenue. As regards debt, the cities and towns generally are in a sounder financial condition than they were in 1913, and also in better condition than many municipalities in other states. Finally, the improper use of trust funds has been practically eliminated.

At the same time, it must not be overlooked that the growth of debt, although not so rapid as prior to 1913, is still a matter for concern, and especially at present, when real estate values and taxpaying capacity are falling. Under prevailing economic conditions the consequences of an unduly liberal debt policy pursued by the local governments generally since 1920 are becoming painfully apparent. It is highly desirable, therefore, that greater caution be exercised by cities and towns in the use of their borrowing powers.

APPENDIX A

Cities and towns are now permitted to incur debt, within the debt limit, for the following purposes and for the periods specified. Ch. 44 of the General Laws, Sec. 7.

(1) For the construction of sewers for sanitary and surface drainage purposes and for sewage disposal, thirty years.

(2) For acquiring land for public parks or playgrounds or public domain . . . , thirty years; but no indebtedness incurred for public domain shall exceed one half of one per cent of the last preceding assessed valuation of the city or town.

(3) For acquiring land for any purpose for which a city or town is or may hereafter be authorized to acquire land, not otherwise specifically provided for; for the construction of buildings which cities or towns are or may hereafter be authorized to construct; or for additions to such buildings where such additions increase the floor space of said buildings, including the cost of original equipment and furnishings of said buildings or additions, twenty years.

(4) For the construction of bridges of stone or concrete or of iron superstructure, twenty years.

(5) For the original construction of public ways or the extension or widening thereof, including land damages and the cost of pavement and sidewalks laid at the time of said construction, or for the construction of stone, block, brick or other permanent pavement of similar lasting character under specifications approved by the department of public works, ten years.

(6) For macadam pavement or other road material under specifications approved by the department of public works, or for the construction of sidewalks of brick, stone or concrete, five years.

(7) For the construction of walls or dikes for the protection of highways or property, ten years.

(8) For the purchase of land for cemetery purposes, ten years.

(9) For the cost of additional departmental equipment, five years.

(10) For connecting dwellings or other buildings with common sewers, when the cost is to be assessed in whole or in part on the abutting property owners, five years.

(11) For the payment of final judgments rendered after the fixing of the tax rate for the current year, one year.

(12) For the establishing of public airports, including the acquiring of land, grading and constructing suitable surface on such field, the construction of necessary buildings and the original equipment and furnishings of same, ten years.

APPENDIX B

Municipal borrowing, outside the debt limit, is permitted for the following purposes and for the periods of time specified. Ch. 44 of the General Laws, Sec. 8.

(1) For temporary loans under (provisions set forth elsewhere in the statutes), one year.

(2) For maintaining, distributing and providing food, other common necessities of life and temporary shelter for their inhabitants upon the occasions and in the manner set forth (elsewhere in the statutes), two years.

(3) For establishing or purchasing a system for supplying the inhabitants of a city or town with water, for the purchase of land for the protection of a water system, or for acquiring water rights, thirty years.

(4) For the construction of filter beds, standpipes, reservoirs and buildings for pumping stations, twenty years.

(5) For laying and relaying water mains of not less than six inches but less than sixteen inches in diameter, fifteen years.

(6) For constructing and laying aqueducts and water mains of sixteen inches or more in diameter, twenty-five years.

(7) For the extension of water mains and for water departmental equipment, five years.

(8) For establishing, purchasing, extending or enlarging a gas or electric lighting plant within the limits of the territory within which such gas or electric lighting plant is authorized to distribute its products, twenty years; but the outstanding indebtedness so incurred shall not exceed in a town five per cent and in a city two and one-half per cent of the last preceding assessed valuation of such town or city.

(9) For such emergency appropriations as shall be approved by a board composed of the attorney general, the state treasurer and the director, one year.

(10) For acquiring land or constructing buildings or other structures, including the cost of original equipment, as memorials to soldiers, sailors and marines, twenty years; but the indebtedness so incurred shall not exceed one-half of one per cent of the last preceding assessed valuation of the city or town.

(11) For the payment of an assessment for a proportionate share of the expense of construction of a county tuberculosis hospital under (provisions set forth elsewhere in the statutes), twenty years.

(12) For acquiring street railway property under (provisions set forth elsewhere in the statutes), operating the same, or contributing toward the sums expended by a transportation area for capital purposes, ten years; but the indebtedness so incurred shall not exceed two per cent of the last preceding assessed valuation of the city or town.

CHAPTER IV

PROVISIONS FOR DEBT PAYMENT: SINKING FUNDS AND SERIAL LOANS

IT HAS already been pointed out that one of the major evils of local finance in Massachusetts which led to the passage of the municipal indebtedness act of 1875 was the widespread failure of cities and towns to make proper provision, at the time of incurring debt, for its payment at maturity.¹ Accordingly, the legislation of that year carried a provision designed to remedy the abuse. This was supplemented by an act of 1882; and in 1913 the legislature revised completely the requirements relative to local debt payment. The nature and results of these various measures will now be examined.

DEBT PAYMENT REQUIREMENTS OF ACT OF 1875

The legislative attack upon the problem of debt payment in 1875 was as follows. Municipalities were required to establish sinking funds for the discharge, when due, of all debts contracted for purposes other than "temporary" (i.e. other than in anticipation of taxes). In the case of such debts running for periods not exceeding ten years, it was provided that cities or towns should annually raise by taxation a sum not less than eight per centum of the principal thereof, until a sum is raised sufficient, with its accumulations, to extinguish the debt at maturity, which sum shall be used for no other purpose.

For the payment of debts maturing at a period exceeding ten years, the municipalities were required to "establish, at the time of contracting the debt, a sinking fund, and contribute thereto from year to year an amount raised annually by taxation, sufficient, with its accumulations, to extinguish the debt at maturity." In addition to the sinking fund requirement, cities and towns were obliged to raise for all debts "annually by taxation an amount sufficient to pay the interest thereon as it accrues."²

¹ See pp. 26, 27.

² Acts of 1875, Ch. 209, Sec. 4.

Relative to debts already incurred, it was provided that cities or towns whose existing indebtedness exceeded five per cent of the valuation as determined for new obligations were to "raise annually an amount sufficient to pay the interest on the whole, and to establish a sinking fund to extinguish the debt in thirty years." If the existing indebtedness were less than five per cent, or more than one per cent, like provision was to be made for the payment of interest, and a sinking fund was to be established to extinguish the debt in twenty years.¹

Now at the time of the passage of the act of 1875 the sinking fund method of providing for the amortization of debt was the generally accepted method; but in response to the growing popularity of the serial payment method, the legislature passed an act in 1882 allowing municipalities to discharge their debt, if they so chose, by "annual proportionate payments," — that is, by serial payments, — instead of by sinking funds.² Later, this act was amended so as to provide for the payment of debt

by such proportionate or other annual payments as will extinguish the same at maturity, but so that the amount of such annual payments in any year and the whole interest of such debt, so far as issued, payable in the same year shall not together be less than the aggregate amount of principal and interest payable in any subsequent year.³

The principle underlying this requirement was that municipalities should be compelled to pay their debts as soon as possible, and, when not choosing to distribute the debt burden equally over the period of the loan, should at least not throw the greater part of the burden upon the later years.⁴

Legally, therefore, a city or town might, at its option, make provision for the payment of debts by either of two methods — the

¹ *Ibid.*, Sec. 7.

² Acts of 1882, Ch. 133.

³ Acts of 1908, Ch. 341, and Acts of 1911, Ch. 350.

⁴ It should be noted that there are three options in serial issues as regards distribution of the burden of payments. (1) Maturities may be so arranged that the aggregate annual requirements for both principal and interest will be uniform throughout the entire loan period. (2) It may be provided that the periodical payments of the principal shall be equal, which will cause the burden of the loan to be heaviest in the earlier years, and to decrease gradually as the bonds in the series are paid off and as interest charges diminish proportionally. (3) Payments on principal may be arranged arbitrarily.

sinking fund or the serial payment method. Attention will now be turned to the practical results of these provisions.

SINKING FUNDS AND SERIAL LOANS ABOUT 1912

We have already seen that, for a generation after the passage of the municipal indebtedness act of 1875, the legislature paid practically no attention to the question of municipal borrowing or to the operation of the act, but that official investigations were undertaken in 1911 and 1912 which revealed startling ineffectiveness of existing laws in checking the growth of debt.¹ In connection with these investigations, the whole question as to the manner in which municipalities were providing for the payment of debt at maturity was also thoroughly examined. Of especial significance are the results of an investigation conducted by the bureau of statistics in compliance with a legislative resolve of 1912² directing it to make a special investigation of the sinking funds of the municipalities of the commonwealth and the municipal loans then outstanding which had been issued on the serial payment basis. The findings of the bureau were published in 1913.³

The facts regarding the extent to which the sinking fund and serial payment methods were being employed at the time by the cities and towns, as revealed by the investigation, may be set forth briefly. The figures refer to conditions at the end of 1910.

At that time, 25 cities and 60 towns had sinking funds, and approximately 2,000 separate funds were maintained by these communities, about 800 by the city of Boston alone.⁴ The sinking fund indebtedness of these 85 municipalities and the amounts accumulated in the funds are shown in the following table:⁵

	Debts Payable from Sinking Funds	Sinking Funds at end of Fiscal Year 1910
General	\$131,238,436.72	\$52,169,138.28
Public Service Enterprise .	48,410,200.00	17,850,873.33
Aggregates	179,648,636.72	70,020,011.61

¹ See Ch. II, this study.

² Resolves of 1912, Ch. 11.

³ House Doc. 1803 (1913).

⁴ House Doc. 2162 (1913), pp. 9, 15, 16. See also Mass. Bulletin No. 21 (1917), pp. 161-162; and National Municipal Review, Vol. III (1914), pp. 628, 685.

⁵ House Doc. 2162 (1913), p. 13.

Of the aggregate debt payable from sinking funds, \$171,459,407.96 represented obligations of the 25 cities. The 60 towns were responsible for the remaining amount of \$8,189,228.76. All of the other cities of the state, 8 in number, had placed their funded debt wholly on the serial payment basis. Of the 261 towns not accounted for in the foregoing table, 46 had no funded debt.¹ The debt of the remaining 215 was

partly on a correct serial basis, partly represented by demand notes, and partly consisted of time loans issued without provision having been made for annual payments, or liabilities created by the use of trust funds without written evidence of the same having been made.²

On the basis of amount of debt payable, the sinking fund method predominated.

ABUSES OF SINKING FUNDS AND SERIAL LOANS

Unfortunately, the official investigation also disclosed numerous shortcomings on the part of the cities and towns in connection with provision for debt payment. In some instances, municipalities had failed to make any provision whatsoever for the payment of debts in the manner prescribed by law — that is, either by the establishment of sinking funds or by serial payments.³ In other instances, there was faulty administration of sinking funds or serial loans by cities and towns which were purporting to comply with the law. As to the failure to employ either method of debt payment, it need only be said that it represented outright disregard of the law. Faulty administration calls for further consideration.

As to the administration of municipal sinking funds, we find that it was open to criticism chiefly on account of the fact that, in many cases, actual contributions to funds fell short of, or exceeded, the estimated increments, with resulting deficits or surpluses.⁴ Frequently, annual contributions to funds had not been based upon a scientific plan; that is, the amounts which should have been paid in annually had not been calculated originally on

¹ *Ibid.*, p. 9.

² *Ibid.*, p. 19.

³ House Doc. 1803 (1913), pp. 51-54.

⁴ On this point see Chase, *Sinking Funds*, p. 4.

a scientific basis, or if they had been so calculated originally, had not been recalculated from time to time to meet changed conditions.¹ Even in cases in which calculations had been made on a scientific basis, the rates employed varied with the municipalities. It is not surprising, therefore, that when the computations and investments were given only indifferent attention, the complications became serious.

As a result, in 1912 there were 52 instances in 40 different cities and towns of apparent failure to make adequate provisions for sinking fund requirements. Total net deficiencies in sinking funds in that year were found to be \$1,794,391.58, of which \$1,214,349.47 was in the cities and \$580,042.11 in the towns.² It should be noted, however, in connection with these figures of deficits in sinking funds, that at the time of the investigation some cities and towns which had failed previously to make adequate annual contributions to their funds were then making, or were preparing to make, unusually generous contributions, so as to remedy past deficiencies.³ In view of this, certain deficits were somewhat less than the figures indicated. But after making allowance for this mitigating factor, the actual deficits were sufficiently numerous and large to justify serious concern.

On the other hand, 47 municipalities had a total net surplus of \$2,855,192.37 in their funds in 1912, of which \$2,633,126.53 was in the cities and \$222,065.84 in the towns.⁴ In some cases, unscientific calculation of increments was responsible for the surplus. In others, they arose because of the practice of town treasurers of making payments to funds at the beginning of the year, instead of at the close, or of crediting to funds sums received from unexpected sources.⁵

In addition to unscientific calculation in building up funds,

¹ House Doc. 2162 (1913), p. 15.

² These figures were arrived at by the bureau of statistics on the basis of somewhat arbitrary although strictly scientific rules adopted by it for computing the requirements of the various sinking funds, and not upon the basis of the facts as to the actual method of accumulation in each fund. On that account, and in fairness to the cities and towns, the director of the bureau qualified his findings to some extent by referring to the "apparent failure" of municipalities in some instances to provide for sinking fund requirements. See House Doc. 2162 (1913), pp. 15-17.

³ *Ibid.*, p. 17.

⁴ *Ibid.*, p. 17.

⁵ *Ibid.*, p. 19.

other abuses had crept into sinking fund management in numerous cities and towns of Massachusetts. The most significant of these were: (1) failure to make sufficient annual appropriations, so that eventually refunding of the debt became necessary; (2) unsound investment policy, taking the form not so much of poor investments as of acquiring securities maturing at dates subsequent to those of the loans for which the sinking funds had been set up, thus forcing liquidation, perhaps at a loss, in order to retire maturing municipal bonds; (3) incurring debt too freely, because of the feeling that in some mysterious way the sinking fund method made it possible to pay debts with comparatively little sacrifice.¹

Now it should not be assumed that the failure of municipal officials to manage the sinking funds in such a way as to avoid deficits or surpluses was the result of deliberate intent. Rather, it was attributable to the extreme difficulties inherent in the sinking fund method, involving as it does a mathematical computation of the amount to be set aside each year, and also the problem of investing the amounts accumulated. A large number of officials, even though they made careful computations and endeavored to administer properly the accumulated funds, were unable to avoid discrepancies between their estimates and actual accomplishments. This point is clearly expressed in the following statement:²

A sinking fund involves not only the obligation to keep the funds properly invested, but complicated, mathematical computations to insure equitable assessments upon the taxpayers during the period of the loan in order that the debt may be paid at maturity; and the evidence is abundant of the establishment of sinking funds by our Massachusetts cities and towns, doubtless in good faith, to which proper contributions have not been made from year to year, with the result that upon the maturity of the loans these funds are found to be far short of the amount necessary to pay the debt, with extension by refunding as the inevitable result.

Attention may now be turned to the manner in which the serial payment plan was conducted, in the cases in which it had been adopted by cities and towns in lieu of the sinking fund plan.

By official interpretation it was held that the legal provisions

¹ *Ibid.*, pp. 18-19.

² House Doc. 2168 (1912), 23.

relating to the serial payment method contemplated "continuous annual payments, beginning not later than one year from the date of issue." Prior to 1910 this requirement had been evaded by some towns through the issue of notes, the principal of which was not made payable until some years after the date of issue, no annual payments being contemplated; or by postponing the first partial payment more than one year from date of issue.¹ This practice was stopped, however, in 1910, when the director of the bureau of statistics, under legislative authority, refused to certify such notes.²

Apart from this, the only defect in serial payment administration was found to be

an occasional lapse from complete uniformity with the laws requiring proportionate payments to be made of the principal of the debt, . . . such as would certainly be discouraged if not prevented by an explicit definition of the word "proportionate" when used in this connection, or better still, by its omission altogether.³

It is obvious, therefore, that the shortcomings of administration of serial payments were not nearly so numerous or serious as those which appeared in connection with the sinking funds.

In the light of the defects of sinking fund administration which came to light, the director of the bureau of statistics recommended "that the further establishment of sinking funds for the amortization of municipal indebtedness be prohibited and that all debt hereafter incurred be issued in accordance with the serial method," on the ground that the serial method was not only simpler but sounder and more economical.

It is of interest in this connection to note the following conclusion of the Boston finance commission in 1909:

The opportunity for the improvident or fraudulent management of sinking funds and dangers inherent in the system seem to the Commission so great as to require the discontinuance of this system by the city and the borrowing of money in the future in such a manner as will make the provision and accumulation of a sinking fund unnecessary. This end can be accomplished by adopting the ordinary serial or annual payment form of bond.⁴

¹ *Ibid.*, p. 23.

² Acts of 1910, Ch. 616. See also Ch. VII of this study.

³ House Doc. 2162 (1913), p. 24.

⁴ Boston Finance Commission, Vol. II (1909), p. 164.

This was followed by legislation providing that the serial bond method be used thereafter by the city of Boston instead of sinking funds.¹

A joint special committee on municipal finance established by the legislature in 1912 also came to a similar conclusion regarding the superiority of the serial payment over the sinking fund. The opinion of the committee was expressed in these words:

The committee is firmly convinced that the serial payment method is preferable to sinking funds in that it is simpler, it does not involve the problems of administration or the complicated mathematical computations required in keeping an accurate account of sinking funds, and while perhaps during the first year or two of its operation it may entail heavier annual assessments, in the end it reduces the cost of the improvement for which the debt is incurred below that which would have to be paid under the sinking fund method.²

LEGISLATION OF 1913

In accordance with this endorsement of the serial payment method, the legislature provided in 1913, as a part of the municipal indebtedness legislation of that year, that the cities and towns should make provision for the payment of all debts (except "temporary" loans) by

such annual payments as will extinguish the same at maturity, and so that the first of such annual payments on account of any loans shall be made not later than one year after the date of the bonds or notes issued therefor, and so that the amount of such annual payments in any one year on account of such debts, so far as issued, shall not be less than the amount of principal payable in any subsequent year, and such annual amount, together with the interest on all debts, shall, without further vote, be assessed until the debt is extinguished.³

Thus a definite type of serial bond issue was prescribed for all of the municipalities of the commonwealth.

In conformity with the legislation of 1913, no new sinking funds have been established by Massachusetts municipalities since 1913; and as the loans for which the earlier funds were established have matured, the funds have decreased in amount. This is shown by the figures on the following pages.

¹ Acts of 1909, Ch. 486.

² House Doc. 1803 (1913), p. 53.

³ Acts of 1913, Ch. 719, Sec. 14.

AMOUNT IN SINKING FUNDS, 1913-1932¹

CITIES			
Year	Boston	Exclusive of Boston	All Cities
1913	\$38,830,739	\$28,115,289	\$66,946,028
1914	39,937,441	29,589,703	69,527,144
1915	39,926,409	30,819,848	70,746,257
1916	40,191,781	31,193,705	71,385,486
1917	40,308,232	30,681,357	70,989,589
1918	41,600,267	30,432,995	72,033,262
1919	41,185,868	30,445,660	71,631,528
1920	42,626,474	28,351,454	70,977,928
1921	42,603,205	27,226,353	69,829,558
1922	41,402,179	24,392,481	65,794,660
1923	41,508,702	22,247,052	63,755,754
1924	41,077,258	20,954,003	62,031,261
1925	41,762,600	19,004,565	60,767,165
1926	42,726,198	17,372,117	60,098,315
1927	42,170,957	14,904,740	57,075,697
1928	41,677,848	13,872,770	55,550,618
1929	38,675,778	12,227,866	50,903,644
1930	38,324,386	10,917,313	49,241,699
1931	37,125,005	10,049,510	47,174,515
1932	34,999,086	8,613,723	43,612,809

TOWNS			
Year	Towns over 5,000 Population	Towns under 5,000 Population	All Towns
1913	\$3,071,135	\$502,627	\$3,573,762
1914	2,751,735	477,663	3,229,398
1915	2,508,097	495,130	3,003,227
1916	2,345,914	510,954	2,856,868
1917	2,205,704	420,572	2,626,276
1918	2,090,247	416,803	2,507,050
1919	2,131,249	357,872	2,489,121
1920	2,184,326	378,594	2,562,920
1921	2,283,048	368,218	2,651,266
1922	2,220,393	313,103	2,533,496
1923	2,168,896	271,111	2,440,007
1924	1,856,146	232,049	2,088,195
1925	1,677,365	215,403	1,892,768
1926	1,565,937	219,562	1,785,499
1927	1,470,148	193,297	1,663,445
1928	1,054,561	107,355	1,161,916
1929	836,033	113,597	949,630
1930	531,458	96,288	627,746
1931	512,598	80,291	592,889
1932	450,462	74,286	524,748

¹ Compiled from 8th to 27th Reports, Municipal Finances.

ALL MUNICIPALITIES

Year	Amount	Year	Amount
1913	\$70,519,791	1923	\$66,195,762
1914	72,755,543	1924	64,119,458
1915	73,749,487	1925	62,659,934
1916	74,242,337	1926	61,883,817
1917	73,615,865	1927	58,739,144
1918	74,540,314	1928	56,712,535
1919	74,120,651	1929	51,853,276
1920	73,540,849	1930	49,869,445
1921	72,480,825	1931	47,767,404
1922	68,328,157	1932	44,137,557

The extent to which the sinking fund has been displaced by the serial loan since 1913 is clearly revealed by the table on the following page showing the proportions of the total annual debt requirements which take the form either of contributions to sinking funds or to payments on serial loans. It is apparent from these figures that the towns have practically closed out their sinking funds, and that virtually 90 per cent of the amounts being currently applied by cities to debt retirement is in the form of serial payments. And if Boston were excluded from the calculation, the proportion of serial payments for cities would even be considerably higher, for in the case of that city serial loans as yet claim only about three-fourths (73.1 per cent in 1932) of the amounts devoted to payment of debt.

It may be concluded, therefore, that in a comparatively few years all municipal debt in Massachusetts will be in serial form.

Now although it has seemed expedient for the state to require the cities and towns to abandon the sinking fund in favor of the serial loan, it must be recognized that the case for the latter method must be decided on the grounds of greater safety and simplicity of management, and not necessarily on the basis of greater economy and better marketability of bonds. A poor investment policy may make the sinking fund method more expensive than the serial loan; whereas skillful management of sinking funds may make that method less expensive. And as for

METHOD OF MEETING DEBT REQUIREMENTS FROM TAXATION ¹

Year	Cities			Towns over 5,000			Towns under 5,000		
	Serial Payment	Municipal Sinking Funds	State Sinking and Loan Funds ^a	Serial Payment	Municipal Sinking Funds	State Sinking and Loan Funds	Serial Payment	Municipal Sinking Funds	State Sinking and Loan Funds
1910	31.9	54.0	14.0	81.1	11.7	7.0	86.5	9.1	4.4
1911	35.2	50.2	14.5	81.4	11.6	6.9	89.1	7.3	3.5
1912	42.6	44.1	13.3	84.5	9.6	5.9	90.5	6.6	2.9
1913	47.2	41.9	10.9	84.8	9.4	5.8	91.6	5.8	2.6
1914	52.7	40.5	6.8	87.1	8.7	4.2	92.8	6.3	0.9
1915	58.0	35.3	6.7	88.6	7.4	4.0	93.6	5.7	0.7
1916	61.4	32.4	6.2	89.0	6.3	4.7	94.3	4.8	0.9
1917	66.9	27.1	6.0	88.7	6.2	5.1	95.6	3.6	0.8
1918	70.5	23.7	5.8	89.1	5.4	5.5	95.5	3.9	0.6
1919	71.1	23.1	5.8	89.6	4.9	5.5	96.4	3.1	0.5
1920	74.8	19.5	5.7	90.5	4.2	5.3	96.3	3.3	0.4
1921	77.4	17.3	5.3	90.5	4.7	4.8	97.9	1.8	0.3
1922	82.6	12.6	4.8	92.1	3.7	4.2	98.7	1.1	0.2
1923	85.0	10.3	4.7	92.5	3.4	4.1	99.2	0.6	0.2
1924	84.7	10.9	4.4	94.3	1.8	3.9	99.3	0.5	0.2
1925	88.2	7.3	4.5	93.9	1.9	4.2	99.4	0.4	0.2
1926	85.9	7.9	6.2	94.1	1.1	4.8	99.3	0.4	0.2
1927	88.4	7.0	4.6	94.0	1.2	4.8	99.2	0.5	0.3
1928	88.1	7.9	4.0	94.4	1.0	4.6	99.6	0.2	0.3
1929	90.1	5.6	4.3	93.3	0.5	6.2	99.6	0.1	0.3
1930	89.0	5.8	5.2	92.9	0.3	6.8	99.4	0.1	0.5
1931	90.2	4.1	5.7	92.4	0.2	7.4	99.5	... ^b	0.5
1932	89.6	4.6	5.8	92.2	0.2	7.6	99.5	... ^a	0.5

(1) Compiled from 5th to 27th Reports, Municipal Finances.

(2) Comprises payments to the state on account of miscellaneous items and metropolitan sewer, park, and water assessments. Although included in order to show the annual debt charges against revenue, these payments

are assessments and not properly charged as a serial or municipal sinking fund payment.

(3) Less than one-tenth of one per cent.

attractiveness to investors, the advantage may lie with either type of bond, depending upon the state of the money market. If, then, the serial payment method is chosen, it is primarily because "it saves the trouble and risk of handling sinking funds."¹

¹ Bullock, *Financial Policy of Mass.*, p. 106. For the merits of the two plans, see *Methods of Borrowing, Sinking Funds v. Serial Bonds*, with Special Reference to *Massachusetts Practice*; Bulletin No. 21, submitted to the Constitutional Convention by the Commission to Compile Information and Data for the Use of the Constitutional Convention, Massachusetts, 1917.

For arguments in favor of the serial loan on grounds of economy see A. D. Chandler: (1) *Amortization, Serial Bonds, Sinking Funds, Refunding*, in *American Economic Review*, Vol. III, No. 4, December, 1913. (2) *The Metropolitan Debts of Boston and Vicinity. Sinking Fund and Serial Bond Methods Compared*. (3) *A Review of the Report (House Doc. 1650) dated January 15, 1915, of the Commission on Economy and Efficiency on Refunding by Serial Bonds the Outstanding Sinking Fund Bonds of the State of Massachusetts*. See also G. M. Browne, *The Sinking Fund (Boston, 1874)* for a defense of the serial loan. For a point of view wholly favorable to the sinking fund, see the extensive analysis by E. H. Turner, *The Repayment of Local and Other Loans (New York, 1913)*.

CHAPTER V

UNIFORM STATISTICS OF LOCAL FINANCE

ONE of the most important steps in the development of state control of local finance in Massachusetts was taken in 1906, when the legislature passed an act¹ requiring each city and town in the commonwealth to

furnish annually to the chief of the bureau of statistics of labor a . . . summarized statement of all revenues and all expenses for the last fiscal year; a detailed statement of all receipts and all disbursements of the last fiscal year, arranged upon uniform schedules prepared by the chief of the bureau of statistics of labor; statements of the income and expense for each public industry maintained . . . and of all the costs therefor; a statement of the public debt . . ., showing the purpose for which each item of the debt was created and the provisions made for the payment thereof, and a statement of all current assets and all current liabilities . . . at the close of the fiscal year.

This was a very significant measure not only because it provided for the collection, for the first time, of adequate and comparable information regarding the financial transactions and status of all municipalities in the state, but because out of it grew a series of acts which have contributed greatly to the improvement of local financial practices, particularly in the field of accounting.²

It may be mentioned, in passing, that an earlier act³ had required the assessors of the cities and towns to return annually to the tax commissioner the aggregate amount of assets and indebtedness of their respective communities, with a statement of the various purposes for which the debt was incurred, and the amount incurred for each purpose. Inasmuch, however, as no authority was given to the commissioner to prescribe a uniform schedule for use by the assessors in making their reports, in many cases the

¹ Acts of 1906, Ch. 296.

² See Ch. VI of this study.

³ Acts of 1870, Ch. 76.

statistics thus supplied had little value for purposes of comparison. Moreover, they were exceedingly limited in scope as compared with those called for under the act of 1906.¹

Now comprehensive statistics of local finances, scientifically classified on a uniform basis, are of the utmost importance from several points of view.

In the first place, they are indispensable to the development of a sound program of state control of local finance, for without adequate information regarding the financial affairs of the local communities it is impossible for the central government to deal intelligently with their financial problems. This function of financial statistics was clearly stated by the committee on cities of the New York legislature in 1891, when it said:

There can be no wise legislation with reference to the government of the cities unless it be possible for the officers of this state, and especially for the legislature and the Governor, to be able at all times to know with definiteness and certainty the facts relative to the general condition of municipal administration in each of the cities, and more particularly the exact financial situation of each and all of them.²

In the second place, financial statistics of local finances have great value in connection with municipal administration. Good financial management, which is essential to good municipal government, as it is to all government, required that the facts concerning the nature and cost of municipal activities be readily available to the local officials. It is also highly desirable that such information be presented in intelligible form to citizens, so that they may be enlightened with regard to the conduct of public business and the financial condition of their respective communities. Furthermore, local governments have common interests, and those interests are promoted by periodic and comparable exhibits of the financial affairs of each municipality.

Finally, from the scientific point of view, the data of municipal finance, logically classified in accordance with a uniform schedule,

¹ The statistics gathered under the act of 1870 appeared in the Tax Commissioner's Reports from 1871 to 1910, when they were discontinued because the bureau of statistics of labor was then publishing in its Annual Reports on the Statistics of Municipal Finances the data gathered under the act of 1906.

² Quoted in Proceedings, National Municipal League, 1899, p. 124.

are invaluable to the student of modern social conditions.¹ They are fundamental to sound generalizations regarding municipal problems and tendencies.

At this point it is of interest to note that the action taken by Massachusetts in 1906 was in direct line with a movement for the collection and scientific classification of municipal finances in this country that had been in progress for about a decade. That movement was an outgrowth of the increasing attention being paid at the time to municipal reform,² for very early in the attempt to improve municipal administration it became apparent that one of the serious shortcomings of municipal government was the confusion and lack of uniformity in reports of finances and in methods of accounting. Beginning, therefore, about 1895, individual students of the subject, the National Municipal League, and the bureau of the census of the federal government, did important pioneer work in formulating, and in promoting the adoption of, a scientific classification of items that might be used by municipalities generally in the preparation of financial reports.

Thus, an early public contribution in this country to a better classification of items for financial reports of municipalities came from Professor F. R. Clow in 1896.³ Professor Clow rejected existing classifications, designed as they were for administrative purposes, and proposed instead a schedule based upon the functions of government. As a point of departure, he took Wagner's concept of the functions of government⁴ and, adopting it in part, offered a schedule of his own embodying a functional classification.

In 1897 the National Municipal League began to study the question of classification and by 1902 had developed a schedule of municipal receipts and expenditures, also grouped on a functional

¹ On this point, see Bullock, *Address at Conference of Municipal Accounting Officers*, pp. 21-22.

² See particularly the proceedings of the Annual Conferences for Good City Government, and the Annual Meetings of the National Municipal League, 1894-1906. See also J. R. Commons, "State Supervision of Cities," *Annals of the American Academy of Political and Social Science*, Vol. V (1895), No. 6, pp. 865-881.

³ F. R. Clow, "Suggestions for the Study of Municipal Finance," *Quarterly Journal of Economics*, Vol. X (1896), No. 4, pp. 455-466.

⁴ Wagner, *Finanzwissenschaft*, Vol. I, pp. 64-68.

basis, which it recommended to municipalities generally.¹ This schedule was adopted by a number of cities, and by 1906 Dr. Le Grand Powers of the United States census bureau could say that, "The number of cities using that classification has increased from the beginning in a geometrical ratio."² The United States census bureau, building upon that classification, soon devised a schedule which it employed for reporting the financial statistics of cities.³

From one point of view, therefore, the action of Massachusetts in 1906 was but part of a larger movement. Moreover, as will appear later, it was upon the foundations already laid down that the Massachusetts bureau of statistics found it desirable to build.

The immediate task which the act of 1906 laid upon the bureau of statistics was that of formulating a schedule for use in the collection and compilation of the financial data called for in the act. It will be recalled that, in addition to statistics relative to municipal indebtedness, the law called for a summary of all revenues and expenses, and a detailed statement of all receipts and disbursements. Now it must be clearly recognized that revenues and expenses are fundamentally different from receipts and disbursements. The former refer to income in all of its forms, and to costs incurred; whereas the latter refer to actual payments received and made. This distinction is so important that it requires further treatment. Accordingly, the following admirable statement will be utilized for that purpose.⁴

Accounts of *revenue* are made up from records kept of increments of wealth (usually in the form of rights to receive) for current administrative purposes. The accounts of *cash* receipts are drawn from records of cash actually taken in; the fact that any amount of money was received on account of revenue accruals of previous years, or that the transaction pertained to the issue of bonds, makes it no less a cash receipt. . . . For the purpose of determining revenues accrued no inquiry is made as to the amount of cash received on

¹ National Municipal League, 1897, pp. 6, 7; 1899, pp. 116-123, 220 ff.; 1900, pp. 52, 53; 1901, pp. 251 ff.; 1902, pp. 299, 300.

² National Municipal League, 1906, p. 208.

³ See Census Bulletins 20, 45, 50; Twelfth Census, Wealth, Debt, and Taxation, pp. 953 ff.; Financial Statistics of Cities, 1906-.

⁴ F. A. Cleveland, Municipal Administration and Accounting, pp. 160-161.

account of these accruals. For the purpose of determining receipts no thought may be had of revenue accruals. The two categories are absolutely separate and distinct categories of business, of accounts, and of finance.

The same general distinction may be made between accounts of *expense* and accounts of *disbursement*. A statement of expenses shows the total amount of cost incurred in an enterprise, public or private, on account of current operations and maintenance. This statement is drawn from records of cost and has no reference whatever to payments in cash. "Cost" and "Cash Paid" have very different meanings. The entire expense or cost may have been incurred for a period stated without a dollar having been paid out or disbursed. Again, during the same period, there may have been disbursements amounting to many times the expenses incurred. . . . A statement of revenues and expenses is a summary made up from all the accounts of a municipality which have to do with the cost of operation and with the provisions made for meeting this cost. Statements of receipts and disbursements, on the other hand, pertain to the municipal treasury alone. They are summaries of transactions of the "receiving" and "paying" tellers of the municipalities.

In order to understand the difficulties encountered by the bureau of statistics in setting up a classification which would show both types of transactions, i.e. revenues and expenses as well as receipts and payments, it is necessary to examine the nature and limitations of the municipal accounting systems from which the facts were to be drawn.¹

For the most part, the accounting systems of the Massachusetts municipalities were then, as now, kept upon a cash rather than upon an accrual basis — that is, they disclosed the amount of cash received and paid out by the local governments during the fiscal year, but they did not reveal the accruals of revenue, or the expenses incurred, during that period. The director of the bureau of statistics expressed the situation in these words: "The books of account commonly in use in our cities and towns do not pretend to exhibit much more than the actual flow of cash in and out of the treasury."² It should be noted, however, that this condition was not confined to Massachusetts. In referring to municipal accounting in the United States in 1898, the United States commissioner of labor said that it was "generally conducted, as it had been for many years, solely from the fiduciary point of view, with-

¹ See the following chapter, however, for a full discussion of the shortcomings of municipal accounting in Massachusetts at the time.

² Bulletin No. 1, Bureau of Statistics, p. 2.

out intelligently directed effort to secure and present an analyzed exhibit of the sources of revenue or the cost of government.”¹ Obviously, books kept upon this basis do not furnish a direct answer to the very important question as to whether or not government is living within its income.

The task confronting the bureau of statistics was therefore that of so classifying cash items as to furnish not only an exhibit of receipts and payments but also to reveal revenues and expenses. The bureau solved the problem by setting up a schedule containing, first, a classification of all receipts and payments, and second, a recapitulation of the same items so arranged as to show the receipts which were, strictly speaking, revenue for current charges and the payments which were properly chargeable against revenue. The excess or deficiency of revenue could then be readily ascertained by comparing the aggregate of “revenue for current charges” with that of “current charges against revenue.”

The schedule formulated by the bureau of statistics is shown on pages 94, 95. Attention will now be directed to its significant features.

Considering, first, the classification of *Receipts*, we find two major divisions: *Revenue Receipts* and *Non-Revenue Receipts*. The basis for the differentiation was the definition of revenue then in use by the United States census bureau. Thus, the census bureau considered revenue to be

those amounts of money or other forms of wealth provided or obtained for meeting governmental expenses, outlays, and indebtedness by nations, states, and municipalities (1) from the exercise of governmental powers of taxation and police control; (2) from the receipt of donations, gifts, grants, and subventions for governmental use; (3) from the performance of services for compensation, and from the furnishing of material objects for valuable consideration; and (4) from the operation or management of productive enterprises, investments, and properties of the government.²

¹ Twelfth Census, Wealth, Debt, and Taxation, p. 953.

² Financial Statistics of Cities, 1906, p. 8.

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SUMMARY OF FINANCIAL TRANSACTIONS *

RECEIPTS	PAYMENTS
<i>Revenue</i>	
<i>General</i>	<i>Maintenance</i>
Taxes	Departmental
Licenses and permits	Public service enterprises
Fines and forfeits	Cemeteries
Grants and gifts	
All other	
<i>Commercial</i>	<i>Interest</i>
Special assessments	Loans, general purposes
Privileges	Loans, public service enterprises
Departmental	Loans, cemeteries
Public service enterprises	
Cemeteries	
Interest	
<hr/>	
<i>Non-Revenue</i>	
<i>Offsets to outlays</i>	<i>Outlays</i>
Departmental	Departmental
Public service enterprises	Public service enterprises
Cemeteries	Cemeteries
<i>Municipal indebtedness</i>	<i>Municipal indebtedness</i>
Loans, general purposes	From a sinking fund
Loans, public service enterprises	From revenue
Loans, cemeteries	Bonds refunded, current year
Bonds refunded, current year	Temporary loans
Temporary loans	Warrants or orders, previous years
Premiums	
Unpaid warrants or orders	
<i>From sinking funds</i>	<i>To sinking funds</i>
	From revenue
	Premiums and offsets to outlays
<i>Agency and trust</i>	<i>Agency and trust</i>
Taxes and licenses for State	Taxes and licenses for State
Taxes for county	Taxes for county
Reimbursements for grade crossings	Expenditures for grade crossings
Permanent public trust funds	Permanent public trust funds
Private trust funds and accounts	Private trust funds and accounts
<hr/>	
<i>Recapitulation</i>	<i>Recapitulation</i>
<i>Revenue</i>	<i>Current charges against revenue</i>
For current charges	Maintenance and interest
For outlays	Debt
	Sinking funds

* The schedule shown here appeared first in the 2nd Annual Report on the Statistics of Municipal Finances. With but a few very slight changes in items, it has been used in all subsequent reports.

Offsets to outlays	Outlays
Municipal indebtedness	Premiums and offsets to outlays paid
From sinking funds	to sinking funds
Agency and trust	Debt (from sinking funds)
	Bonds refunded, current year
	Temporary loans
	Agency and trust
<i>Total receipts</i>	<i>Total payments</i>
Balance on hand, beginning of year	Balance on hand, end of year
<i>Grand Total</i>	<i>Grand Total</i>

Accordingly, *Revenue Receipts* in the Massachusetts schedule includes all amounts from these sources.

Non-Revenue Receipts, on the other hand, refers to receipts on account of: *Offsets to Outlays*; *Municipal Indebtedness*; *Receipts from Sinking Funds*; and *Agency and Trust*. Under *Offsets to Outlays* are included all

receipts accruing from the sale of real property, reimbursements on construction work, and, in general, all receipts which are, or, in a proper system of municipal finance, should be, devoted to lessening the burden upon the taxpayer for the cost of permanent improvements and diminishing indebtedness.¹

Municipal Indebtedness and *Receipts from Sinking Funds* include all amounts derived from loans or from sinking funds. *Agency and Trust* is applied to merely nominal items.

Returning to the general class of *Revenue Receipts*, we find that it is divided further into two principal classes under the captions of *General* and *Commercial*. This, it will be observed, is a functional classification. Again the point of view of the census bureau was accepted as a basis for differentiation. The position of the census bureau on this point was as follows:

The transactions of a nation, state, or municipality are of two radically different types: [those] arising from *general functions* and from *commercial functions*. . . . The *general functions* . . . are, as a rule, performed for all citizens alike, without any attempt to measure the amount of benefit conferred or the exact compensation therefor, the expenses being met by revenues obtained principally from compulsory contributions levied without regard to the benefits which the individual contributors may derive. . . . The *commercial functions* . . . include those which create trade relations, industrial or semi-industrial, between the government and the general public.²

¹ 2nd Report, Municipal Finances, p. xlvi.

² Twelfth Census, Wealth, Debt, and Taxation, pp. 955-956. See also Census Bulletin 20, p. 5. It may be noted, however, that the real distinction is between

Accordingly, *General Revenues* were considered by the Massachusetts bureau of statistics to be

moneys accruing to the municipal treasury under the general taxation and police powers, and from donations or grants from various sources in return for which the municipality renders only a general service without special regard to the possible benefit to be derived by the taxpayer in his capacity as an individual.¹

Commercial Revenues, on the other hand, were defined as

moneys accruing to the municipal treasury from property owners or citizens in return for a particular service rendered, including improvements calculated to permanently enhance the value of the property, or thing of value furnished, to the individual by the municipality.²

Passing now to the classification of *Payments*, we do not find, as might be expected, subdivisions corresponding to those of receipts. Instead, payments are classified according to the purposes for which the expenditures are made. Now it is important that payments be classified on this basis; but it is also essential that they be classified on the basis of sources drawn upon for the making of payments, i.e. taxes or loans, so as to reveal the amount of current expenses paid from revenue and the amount of payments made from borrowed funds, thus permitting a comparison between revenues and expenses. But most of the accounting systems in use at the time in the Massachusetts cities and towns did not distinguish clearly between expenditures made from funds raised by taxation and those made from funds raised by borrowing.³ Specifically, they did not furnish the necessary information on the following points:⁴

1. Aggregate expenditures from revenue for (a) current maintenance, and (b) for outlays.
2. Expenditures for current maintenance made from non-revenue receipts, i.e. borrowed funds.
3. Expenditures for outlays classified to show whether from (a) revenue or (b) non-revenue receipts.

commercial and non-commercial functions of government, and not between commercial and general functions.

¹ 2nd Report, Municipal Finances, p. xxxviii.

² *Ibid.*, p. xli.

³ 1st Report, Municipal Finances, pp. vii, viii.

⁴ See Bulletin No. 1, Bureau of Statistics, p. 4.

It could not be assumed, of course, that all expenditures from revenue might be treated as expenses, and that all expenditures from borrowed funds might be treated as outlays.

As already pointed out,¹ the bureau of statistics solved this problem by segregating, in the recapitulation of cash payments, the items "property chargeable to revenue," comprising payments on account of maintenance of the several departments of government, of interest, of maturing debt (exclusive of loans paid from sinking funds), and of sinking fund requirements.² In determining the revenue for current charges, all cash receipts were included, except taxes and other revenue assessed for state, county, or district purposes, receipts from loans or from the sale of real estate, and certain other receipts specifically applied to outlay or capital accounts.

"Revenue for current charges" and "current charges against revenue" as thus calculated constitute a very close approximation to revenues and expenses as furnished by accounting systems kept on an accrual basis, and make it possible to determine whether or not the municipalities are raising sufficient revenue to meet current needs. The aggregates of each of these items are presented in a separate table in the annual reports on municipal finances under the caption, *Excess or Deficiency of Revenue*. It should be pointed out, however, that inasmuch as municipalities frequently find it difficult to collect in a given year all of the revenues assessed or estimated for that year, it is not valid to draw final conclusions from the figures for one year only. The uncollected items of a given year are very likely, of course, to appear in the accounts of later years. Hence inferences regarding the relationship between municipal revenues and expenses should be based upon the figures for a series of years.³

This schedule for presenting summaries of the financial transactions of the Massachusetts cities and towns appeared first in the Second Annual Report on the Statistics of Municipal Finances

¹ See p. 93.

² 2nd Report, Municipal Finances, p. viii.

³ See pp. 58, 59 for use made of these statistics in connection with the discussion of the financial policy of the municipalities since 1913.

(1907) and, with the exception of a few minor changes in items, has been used in all subsequent reports. Financial statistics of Massachusetts municipalities therefore possess the exceedingly important characteristic of comparability for the period since that time, and particularly since 1912, when, for the first time, a complete summary of receipts and payments for all cities and towns was secured and when inaccuracies of reporting had been practically eliminated.

The mere formulation of a schedule did not, however, solve the problem of securing uniform statistics of municipal finances in Massachusetts; it still remained to put the classification into effect. This involved struggling with defective and widely divergent accounting systems, converting city and town officials to the use of the new schedule, and gaining their coöperation in the task of compiling statistics in conformity with it. It is worthy of particular note that the legislation of 1906 did not call for or imply coercion of the cities and towns; and the bureau of statistics sought very carefully to avoid compulsory tactics. It devoted its efforts solely to securing voluntary compliance on the part of city and town officials. The first year was therefore confined largely to missionary work. This was undoubtedly a wise policy, but it made progress slow.

Relative to the difficulties encountered by the bureau of statistics in its efforts to secure the data for the first report (1906) the director of the bureau said:

. . . The unfamiliarity of the great majority of municipal officers with the subject and the hopeless complications in which many of the smaller towns became involved in attempting to classify their accounts and properly transfer items from their books to our schedule were such, that, to insure an intelligent compliance with the law, it became virtually necessary for the Bureau to prepare about 50 per cent of the schedules from town reports supplemented by correspondence. About one-third of the schedules for the cities were filled out by the city auditors without help.¹

On the other hand, another statement of the director indicates the attitude taken by municipal officials toward the efforts of the bureau, and the early results of the new measure.

¹ 1st Report, *Municipal Finances*, p. xxv.

. . . It is a pleasure to be able to report that the local officials have, as a rule, shown a cordial willingness to comply with the requirements of the law; and when the purpose of the act has been explained, and the desirability of keeping their accounts in a systematic, business-like, and, so far as possible, uniform manner has been pointed out, they have shown a warm interest in the subject. . . . A substantial beginning has unquestionably been made in a great reform; the leaven is working and the cause is growing, as only healthy growth can come, on its merits.¹

But in spite of assistance tendered by the bureau to municipalities in making their returns, and of the "cordial willingness to comply with the requirements of the law" on the part of the municipalities themselves, compliance was incomplete and tardy. Two hundred small towns endeavored to comply and made returns in some form to the bureau in 1907;² but the data were supplied in such form as not to permit of their being presented in the report for that year in the detail which was possible for the cities and large towns. Fifty-six towns made no return at all for 1907, and because it was impossible to obtain satisfactory information regarding their financial transactions from the printed town reports, it was necessary to omit those towns from the report for that year. It was not until fifteen months after the blanks for the return for 1907 had been sent out that the last city schedule was returned.³ In the case of towns of over 5,000 inhabitants, sixteen months elapsed before the last return for 1907 was filed. Repeated prodings by letter or visits by special agents were necessary to accomplish even that tardy result. Furthermore, the returns had to be examined and verified, and in the case of 30 of the 33 cities and 62 of the 65 large towns (i.e. those having a population of 5,000 or over), a personal visit by a special agent was necessary, since it was impossible to tabulate the returns as made out even by accounting officers who were most anxious to meet the requirements of the law but who had failed to classify properly their entries on the schedules.⁴

In order to render the report as of the year 1908 complete for the 33 cities and for the large towns, it was again necessary for the bureau to send agents to obtain the requisite information direct

¹ *Ibid.*, pp. xxxi, xxxii.

² 2nd Report, *Municipal Finances*, p. v.

³ *Ibid.*, p. xxxi.

⁴ *Ibid.*, p. xxxi.

from the books of a number of cities and towns whose accounting officers failed to make returns.¹

The report as of the year 1909 contained classified data in considerable detail for the 33 cities, for the 71 towns having a population of 5,000 or over, and for 176 of the small towns. But the information was not yet secured without assistance on the part of the bureau of statistics. Three of the cities and 19 of the large towns failed to make their returns; consequently it was necessary for the bureau to fill out their schedules through its own agents. In addition, there were 74 small towns from which no returns were received and from which the bureau did not undertake to secure information.²

Of the 250 small towns, summaries of financial transactions for 191 were included in the report as of 1910, 15 more than were included in the preceding report. However, 59 small towns still failed to make returns; and for 4 of the cities and 17 of the large towns the schedules were filled out by special agents of the bureau.³

The sixth annual report, as of the year 1911, included data for the 33 cities, for 70 of the large towns, and for 177 of the 250 small towns. Four cities and 8 large towns failed to make returns, and their schedules were filled out by the bureau.⁴

By 1912, however, most of the purely statistical difficulties which were encountered in the earlier stages of the work, owing to inadequate and lax accounting methods, to indifference on the part of local officials, to a lack of appreciation of the significance of the undertaking, and to a general underlying suspicion of any activity on the part of a state department in matters which had always been regarded as purely local, had been almost entirely overcome. Therefore in the report as of that year there was presented for the first time a complete compilation of receipts and payments for all of the municipalities of the commonwealth and of all debt transactions and of outstanding indebtedness, all classified on a uniform basis. To be sure, officials of numerous munici-

¹ 3rd Report, Municipal Finances, p. v.

² 4th Report, Municipal Finances, p. v.

³ 5th Report, Municipal Finances, p. v.

⁴ 6th Report, Municipal Finances, p. v.

palties failed in that year, as previously, to file returns; nevertheless, the bureau felt justified, in the interest of a complete report, in making the effort necessary to procure and classify the desired data for all of the cities and towns.

It may be said, therefore, that by 1912 the goal of uniform financial statistics for all municipalities was attained in Massachusetts. Relapse has not been permitted in subsequent reports.

It is not too much to say that the policy initiated by the act of 1906 has been successful beyond expectations. Not only has it provided invaluable statistical information in comprehensible and comparable form for all municipalities, but it has contributed in large measure to notable improvements in the financial practices and policies of the municipalities. The very fact that local officials were compelled to furnish information of this nature had a salutary effect upon their financial practices. In attempting to comply with the law, many of them became familiar, for the first time, with the actual financial condition of their own communities; and the fact that the state government was investigating this aspect of municipal administration stimulated the cities and towns to improve their financial methods.

It is of interest to note the change in public attitude toward the act of 1906 during the years that it has been in force. At the time of its adoption the measure was looked upon by many people, and especially by municipal officers, with indifference if not with hostility, based upon the fear that local government would be curtailed by its operation.¹ In commenting upon the opposition, one writer upon the subject informs us that

the first year (1903) that such an act was proposed it was a fact that the largest committee room in the State House was not big enough to hold the representatives of the cities and towns who came before the committee and violently opposed the bill. The provisions of the proposed act were then denounced as subversive of home rule.²

Today there is scarcely any opposition to the law; and it may be said that the act, instead of diminishing home rule, has in reality strengthened it through the salutary reforms which it has worked in methods of local finance.

¹ 5th Report, Municipal Finances, pp. v, vi.

² Chase, Municipal Debts and Reserve Deficiencies, p. 5.

CHAPTER VI

MUNICIPAL ACCOUNTING AND AUDITING

It was seen in the preceding chapter that faulty municipal accounting was in large measure responsible for the difficulties experienced by the bureau of statistics in attempting to carry out the provisions of the law which called for the collection of statistics of local finances. Thus the endeavor to secure comprehensive and comparable financial statistics revealed clearly the necessity of accounting reform. As a consequence, steady improvement in the accounting methods of the cities and towns has taken place, and legislation has been enacted to foster that improvement and to promote the adoption of a standard system of accounts. This chapter will deal with the inadequacies of municipal accounting which were discovered when the bureau of statistics began to collect local financial statistics under the act of 1906, and with the improvements which have been effected since then.

One of the defects of municipal accounting in Massachusetts at the time was lack of uniformity among systems.

To undertake the examination, classification, and consolidation into comparable form of the receipts and disbursements of 354 municipalities, hardly any two of which kept their books of account on the same basis, was to plunge into a veritable statistical jungle,¹

was the characterization by the director of the bureau of statistics of the condition of municipal accounting in Massachusetts when the bureau began to carry out the provisions of the act of 1906. Governor Bates had made a similar observation in 1903, when he said,

There is no uniform system of municipal accounting in the commonwealth, such as would permit the contrasting of the expenses of one municipality for a given purpose with those of another for the same purpose, thus revealing extravagance, if such existed.²

¹ 1st Report, *Municipal Finances*, p. vi.

² Senate Doc. 1 (1903), p. 33.

In some instances, moreover, accounts were poorly kept, being little more than alphabetical arrangements of unrelated items.

A shortcoming even more serious than the many divergencies among accounting systems was the general lack of uniformity in the use of terms by different municipalities, by departments within the same municipality, and from year to year.¹ Thus it was impossible, often, to secure comparable data for any considerable length of time even for the same community.

As already pointed out,² another major inadequacy of municipal accounting in Massachusetts was the fact that for the most part the books were kept on a cash instead of an accrual basis. This was violation of the sound accounting theory that such records should show the relation of service rendered to expense incurred, in order that it may be known what public services cost.

Municipal accounting in Massachusetts was also defective in that it was a common practice among cities and towns to allow each department of municipal government to keep its own accounts. Because of this practice, frequently neither the treasurer nor any other person had a complete record of the purposes for which public money was spent. Therefore in compiling statistics of municipal finances it was found necessary in a number of cases to reconcile school balances, library balances, balances of overseers of the poor, balances of water works, cemetery balances, and sometimes sewer balances in order to show the proper receipts and expenditures of the municipality for the year under consideration.³

On this point the director of the bureau of statistics said further that

where different departments set themselves up as independent bodies, each keeping its bills in its own hands, if one should wish to examine a particular bill, instead of being on file in the auditor's or treasurer's office, it must be sought in the office of some other department, or possibly in the attic of some official's house. It may be found, and it may not be found.⁴

In some towns, library trustees made no financial reports whatsoever to the municipal authorities. Conditions such as these were responsible for numerous discrepancies between the recapitula-

¹ Bulletin No. 1, Bureau of Statistics, p. 2.

² 1st Report, Municipal Finances, p. xxvi.

³ See p. 92.

⁴ *Ibid.*

tion of orders drawn by selectmen and the department accounts. Finally, there was a wide range of dates at which fiscal years closed.

The inadequacies in municipal accounting were significant not only because they constituted obstacles to the collection of financial statistics; they also made it impossible for local officials to render an accurate and intelligent accounting to citizens, and therefore for citizens to become acquainted with the financial aspects of municipal administration. Because of its bearing upon waste, inefficiency, and dishonesty in municipal government, this was no less important than the failure of municipalities to make prompt and complete returns to the commonwealth. If municipal accounts are so kept as to disclose clearly to the public the nature of the financial transactions, the purposes for which expenditures are made and for which money is borrowed, and whether or not proper provision has been made for meeting debt obligations when due, waste and inefficiency have much less opportunity to flourish, and dishonesty and incompetency may be more easily uncovered when they do exist. At the very least, the scrutiny of financial transactions by the public is made possible by adequate and comprehensible records of those transactions. Prior, however, to the movement for municipal audits and for the installation of a standard system of municipal accounting, municipal governments in Massachusetts often failed to furnish this information, or furnished it in incomplete and confusing form.

It was conditions such as these, as well as the call by the commonwealth for financial reports prepared in accordance with a uniform schedule, which emphasized the necessity for reform in municipal accounting.

It may be noted, incidentally, that the legislature even as early as 1886 had made some effort to improve town accounting by permitting each town to "choose one or more auditors" whose duty it should be "to examine the books and accounts of all officers and committees of their respective towns as to their correctness."¹ This provision was made mandatory for the towns in 1888;² but the examinations made by the auditors were fre-

¹ Acts of 1886, Ch. 295.

² Acts of 1888, Ch. 221.

quently merely perfunctory, and accomplished practically nothing in the way of accounting and financial reform.¹

A direct method of meeting the problem of inadequate municipal accounting would have been to require all cities and towns in the commonwealth to install a uniform system of accounts approved by the state. The legislature did not proceed in that manner. No attempt was made to force action by legislation upon municipalities unwilling or unable to reform defective accounting systems which had been tolerated for generations. Instead, at the outset voluntary action by the municipalities was relied upon to make the needed changes when their importance had come to be appreciated.

Lacking the power to coerce municipalities into the adoption of scientific accounting systems, the bureau of statistics was obliged to rely upon appeals to the municipal officials to comply with the law and upon their willingness to co-operate.

At the same time, interest in accounting reform was greatly stimulated by the very fact that the cities and towns were under the necessity of making returns to the central government. This encouraging result was noted by the director of the bureau of statistics in his first report (1906) of statistics of municipal finances, when he said:²

the cities and towns are appreciating to an increasing degree the inconvenience of attempting to fill out the Bureau's schedule without, in some instances, a radical change in their traditional methods of bookkeeping, changes which are thus being brought about automatically. . . . A substantial beginning has unquestionably been made in a great reform.

The same welcome tendency was referred to as follows in the second report (1907):³

The list of those who are beginning to appreciate the significance of this work in its relation to efficient public service by undertaking a revision of their accounting methods is apparently increasing. . . . An awakening on this important subject is undoubtedly taking place in our commonwealth; and the demand upon the Bureau of Statistics for information and assistance by letter and personal visits is continuous and increasing.

¹ 3rd Report, Municipal Finances, p. xi.

² 1st Report, Municipal Finances, p. xxxii.

³ 2nd Report, Municipal Finances, p. xxxii.

The interest thus aroused soon found expression in requests by various cities and towns for expert audits of their accounts and for the installation of new systems of accounting embodying the recommendations of the bureau of statistics. The bureau, it may be noted, stood ready at all times to assist municipalities seeking aid in the improvement of their accounting systems and financial practices.

By 1910 the experiences of local officials with the requirements of the act of 1906 had awakened in them so keen a realization of the deficiencies of their accounting systems that they were prompted to ask the central government for assistance in bringing about improvement. Accordingly, the legislature passed an act in that year which gave the bureau of statistics definite responsibility with respect to municipal auditing and accounting.¹ Under the terms of this act, any city or town might petition the bureau for an audit of its accounts, and compliance on the part of the bureau was made mandatory. In the case of towns, the director, upon completion of the audit, was to "prescribe such a system of accounts as in his judgement will be most effective in securing uniformity of classification in the accounts of the towns of the commonwealth, and oversee the installation thereof."² Any city might also petition for the installation of an approved system of accounts.³ Compliance with a petition of this nature was likewise made mandatory. Moreover, the director of the bureau of statistics was required, upon the completion of an audit, to "render a report to the city government or the board of selectmen . . . embodying the results of his finding, with such suggestions as he may deem advisable for the proper administration of the city or town finances."⁴ The expenses of the services under this act were to be met by the cities and towns concerned.

A second act was passed in 1910 which was also designed to improve local accounting methods.⁵ This act authorized the appointment of a town accountant by any town desiring to do so, who should keep the town accounts in accordance with the system devised by the bureau, and perform all the duties and possess all

¹ Acts of 1910, Ch. 598.

² *Ibid.*, Sec. 3.

³ Acts of 1910, Ch. 624.

⁴ *Ibid.*, Sec. 2.

⁵ *Ibid.*, Sec. 5.

the powers of town auditors as defined in earlier legislation,¹ and who should hold no other town office involving the receipt or disbursement of money. Obviously, any system of town accounting which might be installed would fall short of its purpose unless it were properly administered; hence this was an important provision.

Thus by the two acts of 1910 the duties of the bureau of statistics were extended, and legal machinery was created by which, if they chose to do so, municipalities might readily reform their accounting practices. Many did so choose; so that by 1914 the director of the bureau of statistics was able to say:²

There are now employed on this work 15 examiners of accounts under the supervision of the Chief Accountant, and it is probable that the work of standardizing the accounts of our cities and towns is proceeding as rapidly as could be satisfactorily handled were it being done under the provisions of mandatory legislation instead of being entirely dependent upon the voluntary act of the cities and towns.

The act of 1910 was amended and amplified slightly in 1913, without, however, in any way altering its purport.³ The legislation of 1913 provided, first, for the extension of the auditing privilege, so that towns might either petition the bureau of statistics for audits from time to time after the installation of accounting systems, or provide in their by-laws for periodical audits under the supervision of the bureau; also that cities and towns might request the advice or assistance of the bureau in keeping their accounts under the new system. The services of the central government were thus made continuously available after the original audit and the installation of an accounting system. The legislature also provided in 1913 for the insertion "in the warrant for the annual town meeting held in the year 1914 in each town of the commonwealth [of] an article to see if the town will petition the director of the bureau of statistics for an audit of its accounts." This was not to apply to the towns which had already petitioned for an audit.

¹ Revised Laws, Ch. 25, Secs. 79, 80, and Acts of 1904, Ch. 322.

² 6th Report, Municipal Finances, p. vi.

³ Acts of 1913, Ch. 706.

Another act of 1913 provided that the financial year of all towns should end on December 31, and that all returns made to the bureau of statistics as required by law should show the financial condition of the town at the close of business on that day.¹

In 1917 three acts were passed which were designed to give additional impetus to the movement for accounting reform. One of these authorized the director of the bureau of statistics to supply approximately at cost to cities and towns in which accounting systems had been installed under the law, such books, forms, or other articles as they might require from time to time after the original installation of the system.² A second authorized the auditing of accounts and the installation of accounting systems by the bureau for fire, water, light, watch, and improvement districts under provisions similar to those for cities and towns.³ The third act of 1917 provided for an audit by the bureau of statistics of the accounts of a town upon petition of the selectmen whenever, in their opinion, the condition of the town was such as to warrant such action, without a vote of the town being necessary under Chapter 598, Acts of 1910.⁴

Notable progress in the improvement of accounting methods was brought about under these various provisions. By the close of 1918 one hundred municipalities (23 cities and 77 towns) had already petitioned the bureau of statistics for audits or for assistance in bringing their accounting systems into conformity with sound principles, or both.⁵ Taken together these cities and towns represented 51.5 per cent of the population of the commonwealth (outside of Boston) and 52.3 per cent of the assessed valuation (outside of Boston).⁶

In human affairs, action is more often the result of an impelling occasion than of foresight. In this respect the municipalities which petitioned for audits or for the installation of accounting systems were not exceptions. Some of the petitions came from

¹ Acts of 1913, Ch. 692, Sec. 1.

² Acts of 1917, Ch. 24.

³ Acts of 1917, Ch. 159.

⁴ Acts of 1917, Ch. 192.

⁵ 11th Report, *Municipal Finances*, p. vi.

⁶ *Ibid.*, p. vi.

municipalities whose affairs were already being conducted with a considerable degree of efficiency and whose general financial condition was good; nevertheless, in most cases the service of the bureau was asked for only because the absolute need for it was apparent. And in many cases cities and towns failed to take advantage of the remedy at hand until they were faced with financial disaster because of shortages in town accounts. In the words of the director of the bureau of statistics: ¹

Waste, and worse than waste, which has been disclosed in the course of our investigations has run into sums impossible to tabulate accurately, though they have indisputably amounted to hundreds of thousands of dollars which might have been saved had the taxpayers but awakened sooner to the necessity of subjecting their financial transactions to the merely ordinary safeguards dictated by the simple demands of business prudence.

It was this state of affairs which aroused doubt as to the wisdom of continuing to rely wholly upon the voluntary action of the municipalities themselves to bring about improvement in municipal finances, and which led the director of the bureau of statistics to express the opinion in 1918 that "the time has arrived when legislative action which will meet this situation is demanded in the interests of the taxpayers and all concerned in a sound administration of public affairs." ²

This suggestion foreshadowed a long step by the central government in the direction of compulsion and supervision in respect of municipal accounts. This step was taken in 1920 when an act was passed reading as follows: ³

The director of the division of accounts is hereby directed to cause an audit to be made of accounts of all cities and towns of the commonwealth, except Boston, and he shall have authority to cause subsequent audits to be made of the accounts of each city and town, except Boston, as often as once in three years.

This provision was amended later to read "as often as once in two years, or annually at the request of the mayor or the selectmen." ⁴ Under this act the cities and towns were not, however, prevented from petitioning for an audit in accordance with the provisions of

¹ *Ibid.*, p. vii.

³ Acts of 1920, Ch. 245.

² *Ibid.*, p. vii.

⁴ Acts of 1926, Ch. 158.

the earlier statutes. Furthermore, they might employ auditors of their own selection, but the reports of those auditors were to be filed with the division of accounts. The director of the division of accounts was given the authority either to accept them or to cause a new audit to be made.

It may have been the positive provisions of this act which prompted cities and towns in increasing numbers to petition for audits, or only the impetus of the growing interest of the municipalities themselves which caused them to request audits; but whatever the reason, so hearty was the co-operation of city and town officials that practically the entire time of the division of accounts continued to be devoted to the work of auditing upon petition rather than upon its own initiative under authority of the legislation of 1920. In fact, the number of requests for annual audits prevented the making of a first general audit in all cities and towns as contemplated by the statute.¹

Having proceeded to the point of requiring audits to be made, the legislature turned its attention to the feasibility of making a similar requirement with regard to accounting. An act was accordingly passed in 1922 requiring all cities and towns which had not previously petitioned for the installation of systems of accounts in accordance with the earlier statutes to vote on this question at the next city or town election.² If the majority vote were in the affirmative, the director of the division of accounts was to be petitioned to install a system. While this act required a vote to be taken upon the question of petitioning for the installation of a standard accounting system by the commonwealth, there was nothing further that could be considered compulsory.

As a result of this referendum, 90 cities and towns voted in the following year to petition for the installation of an accounting system,³ a number far greater than could be installed by the division of accounts with the staff at its disposal. Subsequent years have seen a steady increase in the number of municipalities requesting the services of the division in this connection; so that by

¹ 19th Report, Municipal Finances, p. v.

² Acts of 1922, Ch. 516.

³ 16th Report, Municipal Finances, p. v.

June 1, 1934, the uniform system of accounts had been installed in 214 cities, towns, and districts.¹

Thus, by pursuing a moderate policy, the state has gradually brought about the adoption on a large scale of municipal audits and of sound accounting methods.

Although the system of accounting that has been devised for the municipalities of the state has been referred to in this chapter as uniform, it should be noted that it is sufficiently flexible to allow adaptation to the requirements of different communities. The approved system, although not on an accrual basis, has eliminated in large measure the evils of local accounting which were current when the first attempts were made to secure statistics of local finances, and enables the local governments to furnish readily and with comparative ease the statistical information which the state requires.

Finally, it should be noted that the audits which are continually being made by the division of accounts are by no means merely for the purpose of discovering statistical errors, but also to aid local officials generally in all phases of financial administration. Thus, in carrying on their work, the

examiners are expected to locate errors and discrepancies that may have been made, and, in addition, to assist the various officials in the preparation of statements regarding the finances, and to advise them as to procedure in carrying out the laws relative to municipalities. The general advisory work is especially valuable in view of the yearly changes in officials, the great increase in municipal activities, the general demand for more complete information as to the cost of carrying on the several municipal activities, and for a statement that shows the true financial condition of the municipality.²

And on the basis of information disclosed by the audits the director of accounts also offers helpful advice to local officials concerning unsound financial practices and failure to carry out the provisions of the various statutes relative to local finance. The fact that many requests are received by the division of accounts for assistance of this kind is evidence that the aid rendered is considered to be valuable and is appreciated by municipal officers.

¹ 24th Report, *Municipal Finances*, p. v.

² 25th Report, *Municipal Finances*, p. v.

CHAPTER VII

CERTIFICATION OF TOWN AND DISTRICT NOTES

AN ADDITIONAL measure of control over local finance was adopted by Massachusetts in 1910, when the legislature passed an act¹ providing that, whenever a town voted to raise money by the issue of notes, the notes, countersigned and approved by a majority of the selectmen, should be forwarded to the director of the bureau of statistics, accompanied by a certificate of authenticity of the signatures appearing thereon, and that, "if upon examination said director finds that the note appears to have been duly issued . . . and signed . . . he shall so certify, and return the note . . . to the treasurer of the town." Standard forms for the issue of notes were to be furnished by the bureau of statistics; and town treasurers were required to keep records of all notes issued, in a manner prescribed by the director of the bureau. The act also provided that the towns should notify the director of all payments of notes and the sources from which the money for the payments was obtained. A reasonable fee for certification was authorized. Enforcement of the statute was provided for by making the treasurers liable to fine for failure to comply with its terms.

The particular occasion which prompted the legislature to take this step was a forgery of town notes by the treasurer of the town of Framingham.² This incident brought to the attention of the legislature the fact that no adequate legal safeguard had been provided for the issue of such securities, or means devised for assuring investors as to their authenticity and legality.

Accordingly, Governor Draper in his annual address to the general court in 1910 suggested that legislative action be taken that would effect "some reform in the method of issuing municipal loans," and recommended specifically that "some plan be adopted requiring the registration and certification in the office of the bureau of statistics of all town and city loans," as a means of pre-

¹ Acts of 1910, Ch. 616.

² Gettemy, *Municipal Accounts and Statistics*, p. 13; Chase, *Municipal Debts and Revenue Deficiencies*, p. 10.

venting further abuses in connection with such transactions.¹ This recommendation was embodied in the town note certification act of that year. It should be noted, however, that this act applied only to town notes. Town bonds and all securities of cities were excluded from its provisions.

Now legality and authenticity of issue are features of the utmost importance in connection with municipal securities. This arises from the fact that municipalities can not in law be held to a strict accounting for their debts unless the obligations have been legally incurred; that is, unless they conform in all respects to the constitutional or statutory provisions which may have been laid down regarding municipal borrowing, and have been contracted under local powers recognized by the state and by the proper officials acting without fraud and within their legally prescribed jurisdictions.²

Thus, in a case arising out of the forgery of the Framingham notes, the supreme court of Massachusetts ruled that a particular note was void and that the holder could not collect upon it. The grounds for this decision were that the signatures of the selectmen upon the instrument were forged by the treasurer, that a town treasurer has no authority to bind a town by an indorsement of a note as treasurer in the name of the town, and that, although the town clerk certified the note as correct in every particular, "he was acting beyond his powers."³

¹ Senate Doc. 1 (1906), p. 6.

² "The question of legality . . . has been proven by the experience of bond buyers, through delays and annoyances incident to legal examinations, . . . to be the all important consideration in trading in this class of securities." *Banking Law Journal*, Vol. XXIV (1907), pp. 790-792.

"It is agreed that where there is no authenticity for an issue of municipal bonds that the holder, however full of faith, is not protected, and the bonds are void in all hands." Hill in the Green Bag, Vol. XVI (1904), p. 15.

"The decisions and certificates of the officers of a municipality do not bind the latter, except as to those matters which are within the jurisdiction conferred on them. . . . Persons purchasing bonds of municipality must at their peril ascertain the laws of the state which created it, and must see that the bonds are regular on their face." Morawetz, *A Treatise on the Law of Private Corporations*, Sec. 614.

See also Squire, "Essential Recitals in the Various Kinds of Bonds," *Annals of the American Academy of Political and Social Science*, Vol. XXX (1907), pp. 254-256; Simonton, *A Treatise of the Law of Municipal Bonds*, p. 160; Secrist, *op. cit.*, pp. 121-124; Lownhaupt, *Municipal Bonds*, p. 22.

³ *Franklin Savings Bank vs. Inhabitants of Framingham*, 212 Mass., 92.

In order, therefore, to maintain the credit standing of local governments, and thus to make it possible for them to borrow on the most favorable terms, and to protect the holders of their securities by enabling them to enforce the use of the taxing power without resorting to expensive lawsuits over the legality of contested instruments, it is highly desirable that every possible safeguard be thrown around municipal issues and that investors be given a guarantee of their genuineness and validity. To furnish these safeguards and guarantees was the purpose of the town note certification act of 1910 and its amendments.

Experience soon revealed two defects in the statute of 1910. In the first place, if a note were issued under authority of a vote of the town, the director of the bureau of statistics could not refuse to certify it, even though the town had failed to make provision for its payment, either by the establishment of a sinking fund or by a serial issue, or in some other way had evaded the provisions of the general law regarding municipal indebtedness. In the second place, the act by interpretation permitted the issue of demand notes, which, as pointed out elsewhere in this study,¹ often became in effect perpetual; and when presented, these demand notes had to be certified. These defects were removed in 1912 by an amendment to the original act which provided that

said director shall not certify any note as provided for in this act if it shall appear that the provisions of the law relating to municipal indebtedness in the making of said note have not been properly complied with, nor shall he certify any note payable on demand.²

By 1913 the legislature saw fit to extend the provisions of the act of 1910 relative to certification to fire, water, watch, light and improvement districts.³

Prior to 1915, certification of notes was, in effect, a guarantee of the authenticity of a note but not of the legality of the loan. But an act of that year gave investors the fullest assurance with respect to legality, by providing that the certification of town and district notes by the director of the bureau of statistics should be considered *prima facie* evidence of the liability of the issuing

¹ See p. 36.

² Acts of 1912, Ch. 45.

³ Acts of 1913, Ch. 727. See also Acts of 1914, Ch. 55.

body.¹ This was considered to be desirable in view of the fact that in some instances bankers and brokers, acting upon the advice of their counsel, were doubtful as to the validity of the securities, even though in the judgment of the director of the bureau of statistics the intent of the statute under which the notes were issued, and the procedure prescribed by law, were adhered to in good faith by the town.² Inasmuch as the bureau of statistics was in possession of, or could easily secure, full information regarding the debts of the towns, there was every reason for giving this additional significance to certification.

It has been noted that the act of 1910 did not extend the requirement of certification to bonds issued by towns or to any form of security issued by cities. In 1918 the director of the bureau of statistics expressed the opinion that uniformity of practice regarding certification was not only logical but desirable; nevertheless, because it did not seem to him that the time had yet come for requiring all municipal securities to be certified, he went only so far as to say in that year

that the issue of all loans, both of cities and towns, should be a matter of current record in this office, so that there may be available at all times to investors and to the public generally, complete and up-to-date information on the amount of indebtedness authorized and outstanding of every municipality in the commonwealth.³

This suggestion led to the enactment of legislation requiring cities, towns, and districts to notify the director of the bureau of statistics of the authorization and of the issue of all loans, whether in the form of bonds or notes, and of the purpose of each loan.⁴ Municipal and district treasurers were also required by the same statute to furnish to the director, upon request, "any other information in respect to the authorization and issue of loans, which he may require to enable him to keep a complete and accurate record of indebtedness authorized by cities, towns and districts."

At the time of the passage of the town note certification act, it was expected in some quarters that, in order to avoid the require-

¹ Acts of 1915, Ch. 84.

² 7th Report, Municipal Finances, p. xvi.

³ 11th Report, Municipal Finances, pp. vii, viii.

⁴ Acts of 1919, Ch. 23.

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ments of the law, towns would thereafter issue fewer notes and would turn more generally to the use of bonds for all loans except in anticipation of taxes, or for other purely temporary purposes for which notes are most convenient.¹ This expectation was, however, not fulfilled. Ever since the inauguration of the system of certification, the number of notes and the amount of the loans have

NUMBER AND AMOUNTS OF NOTES CERTIFIED, 1911-1932¹

Year	Revenue and Other Temporary Loans		General Loans		Total	
	Number	Amount	Number	Amount	Number	Amount
1911	983	\$8,974,214	433	\$737,349	1,416	\$9,711,564
1912	1,093	9,438,850	831	1,093,712	1,924	10,532,562
1913	1,241	10,958,450	1,095	1,727,363	2,336	12,685,813
1914	1,411	12,780,963	1,290	1,779,575	2,701	14,560,538
1915	1,501	13,857,600	1,306	1,505,530	2,807	15,363,130
1916	1,437	14,066,488	867	1,204,053	2,304	15,270,541
1917	1,456	15,414,379	809	819,664	2,265	16,234,043
1918	1,665	16,434,205	664	711,160	2,329	17,145,365
1919	1,483	16,914,825	912	1,682,658	2,395	18,597,483
1920	1,802	20,990,182	1,339	1,869,786	3,141	22,859,969
1921	2,176	25,695,512	1,923	2,390,275	4,099	28,085,788
1922	2,183	28,245,427	2,099	2,562,840	4,282	30,808,267
1923	2,047	26,393,895	1,946	2,580,052	3,993	28,973,947
1924	2,230	30,644,443	2,028	2,688,215	4,258	33,332,658
1925	2,284	32,005,695	2,108	2,844,251	4,392	34,849,947
1926	2,471	36,330,002	2,187	2,845,120	4,658	39,175,122
1927	2,455	39,279,690	1,788	2,281,115	4,243	41,560,805
1928	2,311	38,432,256	1,756	2,215,694	4,067	40,647,950
1929	2,589	41,732,798	1,858	2,277,221	4,447	44,010,020
1930	2,397	42,609,534	3,187	3,674,248	5,584	46,373,783
1931	2,120	45,266,213	2,662	2,992,943	4,782	48,259,156
1932	3,013	48,425,103	655	1,020,285	3,668	49,445,389

(1) 27th Report, Municipal Finances, p. v.

increased steadily, as is shown by the figures of the foregoing table. To an increasing extent towns have resorted to the use of notes in preference to bonds, even for long-term loans, presumably to avail themselves of the benefit of the investigation by the bureau of statistics and of the certification privilege. At the present time, notes are used for loans for various purposes, running to the maximum legal period of thirty years.² It should be noted, in

¹ 2nd Report, Municipal Finances, p. xxxiv.

² 9th Report, Municipal Finances, p. xiii.

this connection, that not only have towns found that the market for their notes has been considerably widened as a consequence of certification; they have also found it possible to borrow in this manner at a lower rate of interest than previously.¹

The tendency on the part of the towns to prefer notes to bonds was given additional impetus in 1914, when the bureau of statistics undertook to furnish coupon notes for serial loans to the towns desiring them.² This extended to notes an advantage previously possessed exclusively by bonds.

Finally, an act was passed in 1921 which provided that town and district notes, when issued for a serial loan, may be made payable to "bearer," and may be certified when the name of the purchaser has been filed with the division of accounts.³ By this provision the negotiability of town and district notes has been enhanced. Thus this form of security has come to possess all the advantages of a bond, while at the same time the cost of preparation is considerably less than for bonds, especially when a small number of notes is issued.⁴

An incidental but highly valuable result of the act of 1910 has been the accumulation by the division of accounts of comprehensive information regarding the financial condition of the individual towns. In order to act intelligently with respect to notes submitted for certification, the division is obliged to make a thorough investigation of the pertinent facts of each issue, and in this way it has assembled complete data relative to assessed valuation, outstanding indebtedness, and authorized indebtedness of the towns. This information is readily available for investors, and has contributed in no small degree to the increasing popularity of the town note.⁵

In addition to the statistics relative to town and district debts accumulated incidentally to certification of notes, the act of 1919 requiring cities, towns, and districts to notify the bureau of statistics of the authorization and issue of all loans has resulted in the

¹ 18th Report, Municipal Finances, p. v; 19th Report, Municipal Finances, p. v.

² 6th Report, Municipal Finances, p. vii.

³ Acts of 1921, Ch. 294; 14th Report, Municipal Finances, p. x.

⁴ 14th Report, Municipal Finances, p. x; 16th Report, Municipal Finances, p. v.

⁵ 14th Report, Municipal Finances, p. x.

collection of extensive information regarding the indebtedness of local governments generally, whether incurred by the issue of notes or of bonds. From this it is possible to ascertain promptly the financial condition of any city or town. The division of accounts is thereby enabled to render valuable service to city and town officials, investors, taxpayers, and to committees of the legislature in connection with bills involving municipal finances.¹ Concerning this activity, the division has recently reported that

the data collected . . . and the records of town notes issued are being used constantly throughout the year by investors in municipal securities. Information relative to tax levies, tax rates, uncollected taxes, outstanding indebtedness, both funded or fixed and temporary, are proving to be of great service to investors and the general public.²

One of the most salutary consequences of the town note certification act is the opportunity that it has given the director of division of accounts to counsel the town regarding loans and the provision for their repayment.³ In fact, very soon after the passage of the law it became common practice for town officials to seek the advice of the director in advance of an issue of notes, and for town attorneys to consult with him regarding the interpretation of the law relating to municipal indebtedness. Thus, helpful guidance in sound town financing is constantly being furnished by the division.

It is of interest to note that the revision of the law in 1913 relative to municipal indebtedness was in part the result of the town note certification act. According to the director of the bureau of statistics, "the necessity for such a revision became apparent as soon as the town note certification act went into effect and we began to obtain a mass of information which threw a great deal of light upon the practices of our towns in borrowing money."⁴

In conclusion, it is not too much to say that the note certification requirement has been a powerful aid in improving municipal finance and in controlling indebtedness. "The statute requiring certification has entirely eliminated lax methods on the part of

¹ Tax Commissioner's Report, 1926, p. 97.

² 27th Report, Municipal Finances, p. v.

³ 3rd Report, Municipal Finances, p. xvii.

⁴ Hearing, Joint Special Committee on Municipal Finance, 1912, p. 10.

municipalities in issuing certificates of indebtedness, and has brought great improvement in methods of financing.”¹ It may also be mentioned that, as in the case of the steps taken by the commonwealth to secure uniform financial statistics and to promote good municipal accounting, the supervision of note issues has, in general, been favorably received by the local governments.²

¹ 12th Report, *Municipal Finances*, p. viii.

² 3rd Report, *Municipal Finances*, p. xvi; 4th Report, *Municipal Finances*, p. xv.

CHAPTER VIII

FINANCE COMMISSIONS

IN THE case of three cities, — Boston, Lowell, and Fall River, — general legislation and supervision and advice on the part of regular state officials having proved inadequate for the maintenance of sound financial conditions, the legislature has seen fit to appoint special bodies known as finance commissions to provide additional supervision and control over the financial affairs of those communities. In this chapter we shall consider the conditions in each city which led to such action, and also the nature and accomplishments of the commissions.

BOSTON

Boston has had a state-appointed finance commission since 1909. It, in turn, succeeded a commission which was appointed by the city in 1907, but which was later given additional powers by the legislature.

The occasion for the appointment of the commission of 1907 was the rapid growth of municipal debt which began in 1894, and which resulted in a debt burden of serious proportions within a few years. Thus, from 1894 to 1907 inclusive, net city and county debt¹ advanced from \$30,908,879 to \$68,821,359.² This was an increase of \$37,912,480, or 122 per cent, in a period of thirteen years. Consequently, per capita debt rose from about \$63 to about \$110. Including the city's share of the metropolitan debt,³ so large was Boston's debt burden that the finance commission of 1907 declared that "there is really an underlying lien on every piece of real estate in the city amounting to practically 10 per cent of its market value."⁴ On account of the large amount of indebtedness, by 1907 one-quarter of the tax levy was taken for

¹ The city of Boston and the county of Suffolk being the same for fiscal purposes.

² City Auditor's Reports.

³ This amounted to \$37,967,986 in 1907. See Huse, *The Financial History of Boston*, p. 331. For nature of metropolitan debt, see note 2, p. 3.

⁴ Boston Finance Commission, Vol. II, p. 229.

interest and sinking fund requirements.¹ Clearly the city could not continue to borrow money at that rate without soon encountering serious financial difficulties.

Several factors were responsible for this unsound state of affairs. The legitimate needs of the city were, of course, expanding during this period, and were constantly requiring the expenditure of more money. Furthermore, the legislature had imposed many expenditures upon the city without its consent.² But in large measure the situation was the result of extravagance, waste, and corruption, and of general demoralization in the city government.³ The spoils system flourished, and money was spent with more regard for the demands of interested constituents than for the needs of the city as a whole. The attitude of officials, and even of many citizens, seemed to be that "the city's money is an inexhaustible pool provided by nature into which everyone who can may dip."⁴

Now it should not be overlooked that during these years Boston was subject to both a tax limit and a debt limit. A nine-dollar tax limit had been fixed for the city in 1885, and a two per cent debt limit had been in force since 1887.⁵ But in the face of increasing legitimate, as well as illegitimate, demands upon the municipal treasury, the problem of keeping within the debt limit and of living upon a restricted amount derived from taxation proved to be insolvable. The debt limit gave way, and borrowing outside the limit, under special authority of the legislature, became the rule rather than the exception. The amounts which could be borrowed annually inside the limit came to be treated simply as supplementing the tax levy, to be borrowed in full every year and used for minor improvements, and even for current expenses, while the larger needs of the city, which should have been met by borrowing, were treated as emergencies and the requisite loans obtained outside the debt limit. In the words of the finance commission of 1907, "this phrase, the 'debt limit,' has lost its meaning, and each additional authorization to borrow in

¹ *Ibid.*, p. 167.

² Huse, *op. cit.*, p. 323.

³ Boston Finance Commission, Vol. II, pp. 199-208.

⁴ *Ibid.*, p. 255.

⁵ See p. 31.

excess of it is regarded as a 'gift' of money by the state to be spent as soon as the act can be accepted."¹

The tax limit was also a comparative failure, as it had been generally throughout the state,² and was in part responsible for the growth of the city's debt. Although undoubtedly the limit had some effect in enforcing economy and in limiting appropriations, it induced borrowing for purposes which should have been met by taxation, and thus increased the amounts which had to be provided later for interest and sinking fund requirements. This practice "lulled the citizens into a feeling of false security, and prevented that perpetual watchfulness of municipal expenditure which alone can produce good results."³

The legislature took cognizance of the situation in 1900 and sought to remedy it by raising the debt limit of the city to two and one-half per cent of the valuation of the preceding three years, and by increasing the tax limit to \$10.50.⁴ However, this afforded only temporary relief; by about 1903 the city was again borrowing heavily outside the limit, and the debt burden continued to mount.⁵

These conditions finally led to the appointment by the city council of a commission to "examine into all matters pertaining to the finances of the city, including debt, taxation and expenditures."⁶ The power of the commission was enlarged by an act of the legislature in that year which authorized it "to summon witnesses and enforce their attendance, to order the production of books, papers, agreements, and documents, and to administer oaths."⁷ In the following year another act gave the commission specific power "to inquire into the management of the business of said city, and to inform itself as to the manner and methods in which the same is or has been conducted," and directed it to report its findings to the general court.⁸

Professor Huse refers to the investigation conducted by this commission as "unexcelled in breadth and thoroughness in the

¹ Boston Finance Commission, Vol. II, p. 197.

² See pp. 41-43.

⁴ Acts of 1900, Ch. 399.

⁶ Boston Finance Commission, Vol. I, p. 9.

⁷ Acts of 1907, Ch. 481.

³ City Doc. 142 (1895), p. 6.

⁵ Huse, *op. cit.*, p. 329.

⁸ Acts of 1908, Ch. 562.

field of American municipal finance.”¹ The commission disclosed and fearlessly condemned the vicious political situation and the weaknesses in municipal administration which had contributed so largely to the financial problems of the city.² Its disclosures made evident the need of revising the city’s charter, and to this task the commission addressed itself with great care. The result was a series of recommendations regarding the amendment of the charter.³ Practically all of these recommendations were incorporated in an act of 1909.⁴

Virtual separation of the executive and legislative branches of the city government was provided for by the new charter; and a system of checks and balances was instituted with respect to municipal expenditures. Thus, it was provided that the annual appropriations bill for expenditures (except for school purposes) to be met from sources other than loans should originate with the mayor, the city council having power to reduce or reject any item, but no power to increase an item or to add new ones.⁵ Loan bills (except for school purposes), on the other hand, could originate with the mayor or city council; but the mayor was given the right to veto a loan bill in its entirety, or to veto or reduce any item.⁶

The act also contained an entirely new idea based upon the experience of the commission itself, viz., provision for a permanent finance commission, appointed by the state and having no administrative powers, but charged with the duty of investigating the various aspects of municipal business and of reporting its findings to the legislature. The need for such a body was expressed as follows by the commission of 1907:

A permanent body with powers and duties similar to those of the present finance commission is a vital necessity. Without it the people have no impartial means of accurate information as to the manner in which the mayor, the city council, and the heads of departments are conducting the business of the city. . . . An official board of information acting diligently, fairly, and continuously, is required.⁷

¹ Huse, *op. cit.*, p. 232.

² Boston Finance Commission, Vol. II, pp. 194-230.

³ *Ibid.*, pp. 243-284.

⁴ Acts of 1909, Ch. 486.

⁵ *Ibid.*, Sec. 3.

⁶ *Ibid.*, Sec. 4.

⁷ Boston Finance Commission, Vol. II, p. 249.

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Accordingly, the legislature provided for a permanent finance commission of five persons, all to be inhabitants and qualified voters of Boston of at least three years' standing, to be appointed by the governor with the advice and consent of the council. The duty assigned to the commission was that of investigating

any and all matters relating to appropriations, loans, expenditures, accounts, and methods of administration affecting the city of Boston or the county of Suffolk, or any department thereof, that may appear to the commission to require investigation, and to report thereon from time to time to the mayor, the city council, the governor, or the general court.¹

The commission was also required to make an annual report to the general court.

The financial affairs of Boston have been conducted under these provisions since 1909. It is of interest, therefore, to consider at this point the financial condition of the city during those years.

The trend of the city's debt is revealed in the following figures for selected years:²

Year	Total Net Debt	Assessed Valuation	Debt Ratio
1910	\$71,662,765	\$1,393,765,423	5.1
1915	83,744,621	1,573,164,500	5.3
1920	79,341,876	1,576,152,180	5.0
1925	92,949,600	1,864,433,400	5.0
1930	112,442,714	2,012,764,500	5.6
1932	129,026,413	1,915,845,657	6.7

On the basis of these figures, we find that the total net debt advanced by the amount of \$57,363,648, or 80 per cent, during the period covered. The greater part of the increase, it will be noted, has appeared since 1925. Between 1910 and 1925 the growth of debt was fairly moderate — \$21,286,835, or 30 per cent. This compared very favorably with an increase of approximately \$35,000,000 for the period of fifteen years preceding 1910. Per capita debt rose from \$107 in 1910 to \$129 in 1925. But by 1932 it had risen to \$165. As a result of the continued increase in debt and a decrease in assessed valuation, the debt ratio jumped to

¹ Acts of 1909, Ch. 486, Sec. 18.

² Compiled from Reports, Municipal Finances.

6.7 in 1932. It must be said, however, that the increase of debt since 1910 has been in considerable measure for rapid transit purposes. If this type of borrowing, which is peculiar to Boston, be excluded from the total, the trend of debt since 1910 presents a somewhat more favorable aspect.

Turning now to the expenditures of Boston since 1910, we find that they have increased sharply. This is indicated by the figures in the following table covering expenditures for current maintenance and operation of government and outlays for permanent improvements.¹

Year	Current Charges Against Revenue	Outlays	Total Expenditure
1910	\$26,799,890	\$4,249,660	\$31,049,550
1915	32,070,327	8,265,574	40,335,901
1920	46,447,458	4,939,410	51,386,868
1925	53,830,183	15,682,307	69,512,490
1930	73,303,810	17,478,256	90,782,066
1932	82,939,404	19,634,886	102,574,290

These figures show that total expenditures in 1932 were larger by \$71,524,740, or 230 per cent, than in 1910. In consequence, the per capita amount rose from \$46 in 1910 to \$131 in 1932. If the cost of maintaining and operating the city government is considered alone, apart from expenditures for permanent improvements, we find that the per capita charge in 1932 was \$106, whereas in 1910 it had been \$40. It will be noted that the growth of expenditures was particularly large after 1920.

Now in attempting to appraise the effect of the finance commission upon the financial policy of Boston since 1909, it must be recognized that the influence of the commission can not be measured with any degree of precision. In the first place, it possesses no power of participating in municipal administration or of controlling directly the financial affairs of the city. Such influence as it does have must be obtained through publicity and by means of recommendations to the city government and to the legislature. This influence is clearly intangible. And in the second place, the results of its recommendations can not be separated from the

¹ Compiled from Reports, Municipal Finances.

effects of the political and administrative changes brought about by the charter amendments of 1909. Only a general estimate of the work of the commission is therefore possible.

From the time of its establishment the commission has been a very active body. Its investigations and recommendations have covered nearly all phases of municipal administration.¹ On the whole, however, they have been directed toward the improvement of the debt policy of the city, the adoption of sound budgetary procedure, and the elimination of waste, inefficiency, and fraud in municipal administration.

Immediately after its appointment the commission began to advocate the policy of meeting annually recurrent charges by taxation rather than by loans, and of borrowing outside the debt limit only for unusual needs.² Its urgent representations to both the legislature and the city government doubtless played a considerable part in bringing about the more conservative debt policy for some years after 1909 than prevailed in the years immediately preceding.³ The commission also began very early to recommend vigorously certain improvements in budgetary procedure and in the form of the budget itself.⁴ In part as a result of this agitation, the segregated budget was adopted by the city in 1916.⁵ Throughout the years the commission has also devoted a great deal of attention to the conduct of municipal business, and has made numerous suggestions as to ways in which economies could be effected.

Now it must not be overlooked that the commission has been subjected at times to severe criticism, particularly in recent years, on the grounds that its methods have been unjust and offensive, and that it has often directed its attention to minor matters; also that certain of its judgments as to men and practices have not

¹ See the Annual Reports of the Boston Finance Commission for the record of its numerous activities.

² Boston Finance Commission, Vol. VI, pp. 54, 62; Vol. XI, pp. 253-255.

³ On this point see an article by G. H. McCaffrey, "Boston Faces Radical Charter Changes," *National Municipal Review*, Vol. XII (1923), pp. 172-176. See also a statement by Hon. Nathan Matthews in House Doc. 1220 (1924), pp. 28, 29.

⁴ Boston Finance Commission, Vol. IX, p. 23; Vol. X, pp. 199-211.

⁵ Boston Finance Commission, Vol. XII, p. 13. See also *National Municipal Review*, Vol. XII (1923), p. 172.

been based upon adequate knowledge of the matters in hand,¹ and that political considerations have entered into its decisions. Question has also been raised as to the quality of its membership.² Recently it has been sharply attacked politically by a state administration apparently opposed to it; and even well-intentioned citizens are offering criticism on the ground that the commission has not been sufficiently effective in accomplishing its intended purpose. The prestige and even the existence of the commission are thereby endangered.

But despite the fact that these criticisms may contain a certain amount of truth, and also that the city government has continued to spend money at an increasingly dangerous rate, especially in recent years and contrary to the vigorous protests of the finance commission, the following statement can probably be accepted as a fair appraisal of the contribution of the commission to better financial administration:

The Boston finance commission has been of great value to the taxpayers of the city. Its services can not be computed in dollars and cents, although some of its suggestions have meant substantial savings to the city, but its greatest value has been in the warning it constantly gives to the city official who may be tempted out of the path of rectitude. If the finance commission had accomplished nothing else but the creating of this fear on the part of office-holders, it would have justified its existence.³

LOWELL

A state-appointed finance committee for the city of Lowell was provided for by an act of the legislature in 1926.⁴ This action was necessary on account of the critical financial situation in which the city found itself at the time as a result of the failure of revenue to keep pace with heavy and increasing expenditures.

Owing principally to the post-war depression in the cotton textile industry, upon which the community is so largely dependent, the economic life of Lowell was then undergoing major

¹ See House Doc. 1220 (1924), pp. 60-61; City Doc. 1 (1927), p. 15.

² National Municipal Review, Vol. XII (1923), p. 172; Boston Finance Commission, Vol. XXIX, pp. 6-8.

³ House Doc. 1220 (1924), p. 8. This statement was made by the Boston Charter Revision Committee created by Ch. 54, Resolves of 1923.

⁴ Acts of 1926, Ch. 297.

readjustment. For some years, and especially during the period of the World War, the textile industry had expanded, bringing with it a steady growth in population and in construction of new buildings, both business and residential. As a consequence, the revenues of the city could be increased with comparative ease. But this tendency ran its course in the years from 1920 to 1925. The population of the city, which had been 112,759 in 1920, fell to 110,296 in 1925. There was also a marked falling off in new building, and by about 1925 property values were practically at a standstill. Foreclosure sales were increasing, and taxation was bearing heavily upon the textile industry. Moreover, further large reductions in valuations, particularly of mill property, were inevitable under the changed conditions.¹

At the same time, expenditures gave no indication of decreasing. They had risen to a new level during the years of prosperity, and there was little inclination on the part of the city officials to reduce them to meet the shrinkage of revenue. Extravagance in the conduct of the city's business was widespread, as the investigations of the finance commission clearly disclosed.² Payrolls were excessive; the number of city employees had not been reduced even though many labor-saving devices had been adopted; unnecessary municipal activities were being carried on; and in numerous other ways public money was being wasted. Furthermore, the budget had come to be practically meaningless. In the words of the finance commission: "It is fair to assume that each budget, for many years back, has had as its model the actual expenses of the year before, and to these have been added what has been dragged out of a willing or unwilling mayor or the council."³

The significant features of the financial condition of the city during the decade prior to 1925 are revealed by the figures for selected years on the opposite page.⁴

These figures show that total expenditures in 1925 were greater by the amount of \$3,557,350, or 128 per cent, than in 1915. The amount spent per capita in 1915 was \$25.74; in 1925 it was \$57.45,

¹ 1st Report (1927), Lowell Finance Commission, p. 40.

² *Ibid.*, p. 49.

³ *Ibid.*, p. 49.

⁴ Compiled from Reports, Municipal Finances.

or more than double the earlier amount. Current charges against revenue considered alone, viz. current expenditures for maintenance and operation of municipal activities, and interest and debt requirements, rose 133 per cent during that time, so that whereas the per capita charge on that account was \$22.03 in 1915, by 1925 it had risen to \$50.24.

Year	Current Charges Against Revenue	Outlays	Total Expenditures
1915	\$2,378,472	\$400,688	\$2,779,160
1920	4,074,783	1,308,355	5,383,138
1925	5,541,043	795,467	6,336,510

Year	Net Funded Debt	Assessed Valuation	Debt Ratio
1915	\$2,735,059	\$92,954,197	2.9
1920	4,196,273	123,919,102	3.4
1925	5,894,670	145,411,863	3.9

Meanwhile, the net funded debt of the city had grown by the sum of \$3,159,611. This represented an increase of 115 per cent. Likewise, per capita debt practically doubled, rising from slightly more than \$25 in 1915 to a little over \$53 in 1925. Assessed valuation, although it was increased 56 per cent in these years, had not kept pace with the growth of either expenditures or indebtedness. Hence the tax rate rose from \$20.80 in 1915 to \$31.80 in 1925. In the latter year it was approximately \$2 higher than the average for all the cities and towns in the state.¹

Unfortunately, the local officials had not displayed the requisite capacity and courage for dealing with the serious financial condition in which the city found itself. Therefore the finance commission was created.

The act of 1926 provided for a commission of three persons, to be appointed by the governor from the list of those who had been registered voters in Lowell for at least five years previously. The life of the commission was limited to five years from July 1, 1926. One of its powers was similar to that of the Boston commission, namely,

¹ 1st Report (1927), Lowell Finance Commission, p. 41.

to investigate any and all matters relating to appropriations, loans, expenditures, accounts and methods of administration affecting said city, or any department, board or officer thereof, that may appear to the commission to require investigation and to report thereon from time to time to the mayor, the city council, the governor or the general court.

An annual report to the general court was required. In addition, the commission was required to investigate all requests for appropriations and to make up and submit to the mayor the annual and supplementary budgets of the city. In this respect, it will be noted, the power of the Lowell commission exceeded that of the Boston commission. The mayor of Lowell might increase or reduce any item in the budget, upon written explanation for doing so, but the council were prohibited from increasing any item. Finally, the act provided that all claims against the city should, upon request of the commission, be referred to it by the city auditor before being presented to the city treasurer for payment. Meanwhile, payment was to be withheld. The commission was empowered to disapprove any fraudulent, unlawful, or excessive payroll, bill, or claim against the city. This was the only real authority given to the commission.

Now it should be noted that except with regard to matters involving illegality of action on the part of local officials, the finance commission was given no power of participating in the government of the city or of actually controlling the conduct of local affairs. Although the budget was to be made up by the commission in the first instance, it was to be finally determined and adopted by the mayor and council as previously. Therefore as in the case of the Boston commission, the Lowell commission could exert influence only through its investigations, criticisms, and recommendations. The finance commission made comparatively little use of its power to disapprove bills or claims which it found to be illegal or fraudulent or excessive in amount, inasmuch as it found that many expenditures which might have been questioned represented merely bad judgment on the part of city officials rather than illegality or dishonesty.¹

Attention will now be turned to the major developments in the

¹ Final Report (1931), Lowell Finance Commission, p. 3.

financial affairs of the city since 1926 as revealed in the following figures:¹

Year	Current Charges Against Revenue	Outlays	Total Expenditures
1926	\$5,614,578	\$535,769	\$6,150,347
1927	5,290,351	540,178	5,830,529
1928	5,403,394	651,863	6,055,257
1929	5,230,876	650,601	5,881,477
1930	5,575,645	618,609	6,194,254
1931	5,523,484	730,267	6,253,751
1932	5,579,110	57,953	5,637,063

CURRENT CHARGES AGAINST REVENUE

Year	Maintenance	Interest	Debt Requirements
1926	\$4,624,759	\$401,448	\$588,370
1927	4,402,413	311,367	576,570
1928	4,471,583	329,740	602,070
1929	4,237,642	341,663	651,570
1930	4,556,763	362,311	656,570
1931	4,497,365	328,048	698,070
1932	4,441,990	401,549	735,570

These figures indicate a drop of \$324,227 in current charges against revenue for 1927 as compared to 1926, and a decrease in total expenditures of \$319,818. The cost of maintaining and operating municipal activities in 1927 was \$222,346 less than in 1926. This was the first year for which the finance commission prepared a budget. Increases again appeared in 1928; but in 1929 current charges were brought down to an amount \$383,702 below that for 1926, and maintenance and operation costs alone in that year were \$387,117 less than in 1926. But 1930, unfortunately, saw a sharp increase which cancelled the reductions of the preceding three years, and which raised total expenditures slightly above the 1926 level. This was accounted for largely by the expansion in maintenance charges. The advance continued in 1931. Valuations, on the other hand, declined steadily from the high point of 1926, as shown by the figures given on page 132. By 1931 the loss was approximately \$15,000,000. The shrinkage took place

¹ Compiled from Reports, Municipal Finances.

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largely on account of textile machinery discarded or removed from the city.¹ The tax rate was reduced substantially by 1928, but by 1930 had returned to the figure for 1926. One encouraging feature of the whole financial situation was a reduction of \$875,350 in the net debt of the city from 1926 to 1931 as shown in this table.

Year	Net Funded Debt	Assessed Valuation	Debt Ratio	Tax Rate
1926	\$5,426,800	\$146,116,437	3.7	\$33.40
1927	5,190,230	141,777,193	3.7	30.00
1928	5,143,660	136,741,810	3.8	28.40
1929	4,907,090	136,254,620	3.6	29.60
1930	4,689,520	133,654,029	3.5	33.40
1931	4,551,450	131,197,149	3.5	33.20
1932	4,915,880	120,450,429	4.1	42.00

It is clear that despite the very unfavorable condition of the city and the helpful recommendations of the finance commission,² the city government still displayed little intention of pursuing the vigorous policy of economy which circumstances demanded. In this connection it is of interest to note that in the period from 1926 to 1931 the city government voted expenditures of a million dollars in excess of the recommendations of the finance commission.³

The legislature therefore extended the life of the finance commission for five years from July 1, 1931, and continued its original powers.⁴ At the same time the budget and auditing commission of the city were permanently abolished.

A number of unfavorable factors were still present in the financial situation of Lowell. Assessed valuations were still excessive, and further reductions were inevitable. Population continued to decline markedly, having fallen from 110,296 in 1925 to 100,234 in 1930. Uncollected taxes in large amounts and tax abatements produced serious deficiencies in revenue for current charges. This aspect of the city's finances is shown in the following table:⁵

¹ 5th Report (1931), Lowell Finance Commission, pp. 26, 50, 54.

² See the Annual Reports of the Finance Commission for specific measures of economy which it recommended.

³ Final Report (1931), Lowell Finance Commission, p. 6.

⁴ Acts of 1931, Ch. 411.

⁵ Compiled from Reports, Municipal Finances.

Year	Excess or Deficiency of Revenue for Current Charges
1925	+118,230
1926	+310,193
1927	+452,808
1928	- 73,228
1929	+ 10,939
1930	- 52,415
1931	-447,722
1932	-595,251

Clearly the city was failing by a wide margin to collect sufficient revenue for current needs. At the close of 1931, about \$1,200,000 of taxes for that year remained uncollected,¹ and at the same time short-term notes were outstanding in the amount of \$2,065,000, which had been issued in anticipation of revenue to be derived from taxation and other sources. Furthermore, these loans were excessive inasmuch as revenue collections for meeting them fell short by almost a million dollars.²

This unsound state of affairs became critical when the city was unable to pay the teachers' salaries of \$105,000 for December.³ At the same time, banks refused to make loans in anticipation of taxes for 1932 unless there were a reduction of at least \$700,000 in municipal expenditures.⁴ It was calculated that the city had a deficit of \$1,184,000 on December 31, 1931.⁵

Without attempting a detailed examination of the financial administration of Lowell since 1931, we may say that certain measures adopted in 1932 halted the city's progress toward bankruptcy. In that year the city floated a ten-year loan of \$1,100,000 to take care of accumulated revenue deficiencies, and also included \$370,518 in the tax levy to make up other deficits.⁶ Upon the urgent recommendation of the finance commission drastic retrenchments were put into effect, and some reduction in the budget was effected, but, unfortunately, heavy expenditures for welfare and

¹ Boston Evening Transcript, Jan. 25, 1932, p. 11.

² 1st Report (1932), Lowell Finance Commission, p. 11.

³ Ibid., p. 9.

⁴ Ibid., p. 11; Boston Evening Transcript, Jan. 25, 1932, p. 11.

⁵ 2nd Report (1933), Lowell Finance Commission, p. 28.

⁶ Ibid., pp. 26, 28.

relief were an offsetting factor to economies in other directions.¹ Current revenue was still inadequate to meet current expenditures despite a tax rate of \$42 for 1932, the highest rate in the history of the city.

By the end of 1932 it was quite apparent that the commonwealth would have to afford relief to cities like Lowell which were finding it impossible to live within their incomes, principally on account of welfare expenditures. As pointed out elsewhere,² relief took the form of emergency finance legislation which permitted municipalities to borrow (1) from the commonwealth up to the limit of tax titles held by them and (2) from the commonwealth or elsewhere an amount not exceeding the difference between the welfare expenditures of 1929 and 1932. Lowell borrowed a total of \$1,055,000 in 1933 under these provisions.

Thus in 1933 Lowell again failed to live within its income.

If one of the aims of a municipality should be to limit its expenditures to its own revenues, honestly arrived at by equitable taxation, then the city of Lowell in 1933 failed utterly in its task. There was a loss of about \$4,744,000 in valuation.

Losses in revenue from other sources "brought the net loss in normal revenue to just under \$700,000. In the face of this loss, the city of Lowell appropriated for city purposes in 1933 the sum of \$381,000 more than it did in 1932." In these words the finance commission summarized the financial administration of the city for that year.³

Although borrowing for current expenditures seems to have been unavoidable, it does not solve the financial problem of the city — it merely defers it. In the words of the finance commission, "'balancing of the budget' with borrowed money cannot continue indefinitely." Only by living within its income can the city regain financial health; and it has thus far failed to do that by a dangerous margin. Lowell is still confronted with the necessity of reducing its expenditures drastically if it is to escape the kind of financial surgery performed upon the city of Fall River by the state-appointed board of finance, to which we shall now turn.

¹ 3rd Report (1934), Lowell Finance Commission, p. 8.

² See pp. 67-69.

³ 3rd Report (1934), Lowell Finance Commission, p. 18.

FALL RIVER

A state "board of finance" was appointed for Fall River in February, 1931, under an act of the legislature of that year.¹ At that time, the city was on the verge of bankruptcy, as a result of extravagance and bad financial management coupled with depression in business, especially in the cotton textile industry, which, as in the case of Lowell, occupies a very important place in the economic life of the city. Fall River, like Lowell, had continued to spend recklessly in spite of a situation which called for the strictest economy, until finally state assistance in restoring sound financial conditions became imperative.

The facts in the case may be set forth briefly. From 1915 to 1926 assessed valuation of Fall River had exactly doubled. The figure for 1915 was \$107,153,345, whereas in 1926 it stood at \$214,120,150, the highest valuation in the history of the city. But by 1930 it had fallen to \$154,220,219 — a shrinkage of sixty millions, with further substantial reductions in prospect in order to correct excessive valuations, especially of mill property. The population of the city, which had grown to 128,993 in 1925, declined to 115,274 in 1930. Expenditures, meanwhile, had increased tremendously. Current charges against revenue in 1915 were \$2,677,330; in 1930 they were \$7,454,135. This represented an increase of 178 per cent. The tax rate for 1930 was \$38.80, considerably higher than the average for all of the cities and towns of the state. The net funded debt of the city had also grown rapidly, so that in 1930 it was \$8,046,320, as compared with \$5,249,722 in 1915, an increase of 53 per cent for the period. In 1930 the debt ratio of the city was 5.2, whereas the average for all cities was 4.32.²

Toward the end of 1930 the financial condition of the city became acute. For the period from 1925 to 1929 there had been a net deficit of revenue for current charges of \$1,934,214.³ Uncol-

¹ Acts of 1931, Ch. 44.

² Sources for these data were the Annual Reports of the Statistics of Municipal Finances of Massachusetts and the Annual Reports of the Tax Commissioner.

³ Calculated from figures of excess or deficiency of revenue for current charges in Massachusetts Reports of Statistics of Municipal Finances.

lected taxes as of January 1, 1930, amounted to \$2,621,290.¹ A "taxpayers' strike" resulted in the collection of only about half of the 1930 tax levy. In November, 1930, the city had outstanding \$4,630,000 in tax anticipation notes of that year. Furthermore, court orders for the abatement of taxes had accumulated to the amount of over a million dollars.² Meanwhile, despite the falling-off in property values, chiefly on account of the sharp decline in the textile industry and the dismantling and removal of plants, valuations for assessment purposes were kept at an excessively high level in order to maintain a favorable tax rate for political reasons and to provide a larger base for municipal loans. Finally, an empty treasury compelled the city to appeal to the state for aid.

The board of finance characterized the state of affairs as follows:

The continued borrowing and spending of money, in anticipation of uncollectible tax levies, made repayment of tax notes impossible; and reborrowing to meet deficits inevitably produced an inverted pyramid which could only finally topple to the ground.³

The manner in which the legislature dealt with the situation will now be considered.

In the first place, provision was made in the act of 1931 for the appointment by the governor of a board of finance of three persons, one of whom was to be a resident of Fall River. (The membership of the Boston and Lowell finance commissions, it will be recalled, is wholly local.) The board was given complete supervision over the financial affairs of the city. Thus, no appropriation may now be made or debt incurred except with the approval or upon the recommendation or requisition of the board, and no department of the city may expend any money or incur any liabilities without its approval. The board was also assigned the duty of appointing an auditor, a treasurer and collector, and three assessors for the city, and was given the power of removing those

¹ Tax Commissioner's Report (1929), p. 151.

² Boston Transcript, June 29, 1931, pp. 1, 7. See also for additional facts as to the financial predicament of the city, Connecticut Tax. Doc. 255 and Reports, Fall River Board of Finance.

³ Connecticut Tax. Doc. 255, p. 20.

officials and of fixing their salaries. Abatements of taxes in excess of five hundred dollars may be granted by assessors only upon the authority of the board of finance. Furthermore, the board was given power to abate taxes to such an extent as it may determine them to be excessive or uncollectible. Finally, it was given extensive authority with respect to investigation, the conduct of hearings, the summoning of witnesses, and the taking of testimony.¹

Now it is clear that the Fall River board of finance differs fundamentally from the finance commissions of Boston and Lowell, in that it possesses wide powers of administering the financial affairs of the city, and not merely authority to investigate and suggest.

In substance, the act creating the board transferred the management of Fall River's government from local to state control.

The legislation created a virtual receivership for a ten-year period, with absolute power to control and manage all appropriations and expenditures of the city and to establish a definite fiscal policy which would restore the city's vanished credit. It was the most drastic and far-reaching legislation to correct local government that the state had ever seen fit to impose on one of its sub-divisions.²

But in addition to creating the board of finance, the legislature also enacted measures for providing Fall River with funds with which to meet its immediate obligations. Thus, the city was authorized to borrow, outside the debt limit, and for a period not exceeding ten years, an amount not greater than \$3,500,000. The state treasurer was directed to set aside the city's share of income and corporation taxes annually distributable by the commonwealth and to use it for the payment of the principal and interest upon the loans contracted by the city under the foregoing provision. The city was also permitted to refund, for a period not extending beyond July 1, 1933, to the amount of \$1,000,000, notes issued in anticipation of taxes for 1930.³ This loan was also to be considered as outside the debt limit.

¹ Acts of 1931, Ch. 44, Secs. 6-14.

² Connecticut Tax. Doc. 255, p. 4.

³ Acts of 1931, Ch. 44, Secs. 1, 2.

At the same time, it was specifically provided that the new funds to be derived from borrowing under the act, as well as all collections of taxes on account of assessments of 1930 and previous years, were to be used only for the settlement of liabilities of the city already incurred. Thus, the legislature directed that all sums secured from loans authorized by the act, as described in the foregoing paragraph, should be used only for the following purposes: (1) the payment of outstanding temporary loans authorized prior to January 31, 1931; (2) the satisfaction of amounts appropriated or expended prior to January 31, 1931, for which no provision had been made in the preceding annual assessment; (3) the satisfaction of abatements on account of tax assessments of 1930 and prior years; (4) the payment of judgment loans authorized prior to the passage of the act; and (5) refunds of taxes assessed and paid in 1930 and prior years, but abated on account of those years.¹ The act provided further that all receipts on account of taxes assessed for 1930 and prior years should be applied only as follows: (1) liabilities of the city outstanding on January 31, 1931; (2) to refunds on account of abatements of taxes assessed and paid in those years; or (3) to the payment of loans authorized under the act of 1931 itself.²

The powers and duties of the board of finance are to terminate on the thirty-first day of December following the final payment, or provision therefor, upon outstanding note or bonds issued under authority of the act.³

Possessing power to act, and not merely to recommend, the Fall River board of finance could proceed at once with measures for the rehabilitation of the finances of the city. The first task confronting the board, upon taking office on February 21, 1931, was that of liquidating outstanding floating or short-term debt amounting to approximately \$5,470,000, including \$3,000,000 of tax anticipation notes of 1930 upon which the city had defaulted, and \$1,630,000 more maturing within a month. Assets at the time consisted of \$3,589,000 of delinquent taxes, collection of which in full was doubtful, and \$215,000 in cash.

¹ *Ibid.*, Sec. 4.

² *Ibid.*, Sec. 2.

³ *Ibid.*, Sec. 16.

The board proceeded at once to meet these obligations by the exercise of its borrowing power and by utilizing cash on hand and collections on back taxes. The full amount authorized by law was borrowed — \$3,500,000 on ten-year serial bonds and \$1,000,000 on short-term revenue notes.¹ Cash on hand and receipts from tax levies provided the additional \$970,000 needed.

Next the board attacked the problem of expenditures and, in view of the emergency, immediately began drastically to curtail and eliminate all non-essential municipal activities. The payroll was cut sharply by the discharge of a number of city employees and by a general reduction in the salaries and wages of those who were retained. Various school officials were dropped, and the teaching staff was considerably reduced. Branch libraries were closed. In these and in various other ways the board sought to bring about a reduction of expenditures for 1931 and subsequent years. At the same time, vigorous efforts were made to collect overdue taxes and to correct assessment abuses.²

The results of the retrenchment measures are plainly evident in the following figures:³

Year	Revenue Appropriation Expenditures	Total Net Debt	Local Tangible Property Assessed Valuation	Tax Rate
1930	\$7,337,794	\$8,046,320	\$149,014,800	\$38.80
1931	6,184,111	10,258,500	123,333,400	40.00
1932	6,336,516	9,038,500	112,359,700	43.70
1933	5,769,785	8,717,880	108,722,400	40.60

These figures show a decrease in total revenue appropriations of \$1,568,009, or 21 per cent, from 1930 to 1933. Salaries and wages alone were brought down from \$3,579,533 to \$2,294,523, a reduction amounting to \$1,285,010, or 36 per cent. This accounted for 80 per cent of all the economies effected by the board of finance and was brought about by reducing personnel 23 per

¹ 1st Report, Fall River Board of Finance, pp. 6-9.

² See Reports, Fall River Board of Finance and the following articles: "May Move to Curb Officials of Fall River," Boston Transcript, June 29, 1931, and "Finance Commission Irks Fall River," New York Times, July 5, 1931.

³ Compiled from 3rd Report, Fall River Board of Finance, pp. 26-30 and Reports, Municipal Finances.

cent and imposing a general wage reduction of 20 per cent upon the remainder. These were found to be the only items upon which considerable reductions could be made.

A significant decrease in debt has also taken place, and a steady reduction in the debt burden in the future is a part of the rehabilitation program of the board of finance. In this connection, it may be noted that in 1933 the city borrowed a total of \$920,000 under the municipal relief loan and tax title loan acts of that year, the features of which have been discussed elsewhere.¹ Assessment and collection of taxes have shown marked improvement under the direction of the finance board.²

Without question the forceful and sound measures adopted by the board of finance have wrought a remarkable change in the financial condition of Fall River and have saved it from bankruptcy. However, much remains to be done. The city has a very high debt ratio, assessed valuation having fallen off greatly in recent years, and the tax rate remains high. Some years of unremitting effort will be necessary to undo the unfortunate results of political manipulation and financial mismanagement of earlier years.

The experience of Massachusetts thus far with state-appointed finance commissions seems to indicate that only a disinterested, powerful board, i.e. one consisting principally if not wholly of members who are not residents of the municipality concerned, and possessing authority to enforce its recommendations, can bring about the prompt adoption of measures of economy or effect the early rehabilitation of a community in financial distress.

¹ See pp. 67-69.

² 3rd Report, Fall River Board of Finance, pp. 28-29.

CHAPTER IX

MUNICIPAL EXPENDITURES: THE PROBLEM OF CONTROL

MUNICIPAL expenditures as such are not subject to state control in Massachusetts, and accordingly have been given no attention thus far in our study. To be sure, the limitations upon local borrowing power, dealt with at length in Chapter III, constitute a partial check upon one class of expenditures, viz. outlays, which are expenditures for so-called permanent improvements; but except in a very limited and indirect manner the central government has not attempted to extend control over the whole range of municipal expenditures including, in addition to outlays, the large volume of payments which fall under the classification of "current charges against revenue." The latter, it should be noted, comprise all expenditures for maintenance of the several departments of government, for interest, for maturing debt (exclusive of debt paid from sinking funds), and for sinking fund requirements — in short, all amounts expended for maintaining the various governmental functions and activities. This type of expenditure is, of course, more fairly representative of governmental costs than outlays, and on the basis of volume alone is far more significant. At the same time, the burden of it is more immediately felt by citizens, inasmuch as under existing laws (except for emergency legislation — pp. 67, 68) it must be met out of current revenue.

Now expenditures by the cities and towns of Massachusetts have increased tremendously in recent years, especially in the last decade and a half, and with the attendant increase in the tax burden they constitute a financial problem of the first magnitude. Within the past three or four years particularly the financial condition of some communities has become acute. Shrinking revenues and an increasing volume of tax delinquencies in the face of heavy and even growing legitimate as well as illegitimate financial demands upon government — primarily the accompaniments of depressed economic conditions — have created difficult financial situations in a number of municipalities. On that account, in-

creasing attention is being paid to expenditures, which are, of course, the fundamental factor in the financial problem.

This chapter will be devoted to a consideration of the facts regarding municipal expenditures in Massachusetts and to measures for dealing with the situation.

GROWTH OF EXPENDITURES

The trend of municipal expenditures in Massachusetts during the past two decades on account of maintenance, interest, and debt requirements, and outlays, is revealed in the following figures for selected years.¹

Year	Total	Current Charges Against Revenue	Outlay
1912	\$113,506,353	\$90,563,922	\$22,942,431
1917	141,359,178	117,706,774	23,652,404
1922	230,839,460	189,505,998	41,333,462
1927	303,776,972	244,025,542	59,751,430
1932	344,358,168	298,704,118	45,654,050

These figures indicate that total expenditures of the cities and towns in 1932 (the last year for which official data were available at time of writing) were greater by the amount of \$230,851,815 than in 1912. This represents an increase of 203 per cent in a period of twenty years. Now an increase of nearly a quarter of a billion dollars in annual expenditures for local purposes in that comparatively brief period is a matter of grave concern. It amounts to an increase on the average of almost \$12,000,000 annually. Meanwhile, population grew only about 20 per cent, so that per capita expenditures for all purposes rose from about \$35 in 1912 to about \$81 in 1932. If, on the other hand, expenditures for current purposes only are considered, the increase is still more striking. Current charges against revenue were greater by \$208,140,196 in 1932 than in 1912, an increase of 230 per cent. This represents a per capita advance from \$28 in 1912 to \$70 in 1932. Outlays were 100 per cent larger in 1932 than in 1912.

Analysis of municipal expenditures may be carried still farther on the basis of the following table, in which current charges

¹ Compiled from Reports, Municipal Finances.

against revenue are broken down into charges for maintenance and operation of government and for interest and payments on debt.¹

Year	Maintenance	Interest	Debt
1912	\$67,091,553	\$12,318,552	\$11,153,817
1917	89,960,701	13,874,126	13,871,947
1922	153,772,013	16,277,676	19,456,309
1927	200,372,072	18,543,176	25,110,294
1932	245,596,905	22,097,502	31,009,711

From these figures we find that the cost of maintaining and operating municipal activities in Massachusetts in 1932 was \$178,505,352 more than in 1912, or an increase of 266 per cent. This caused the per capita cost to rise from \$20 to \$51 in the twenty-year period. Interest and debt requirements, on the other hand, although they show substantial advances, rose less rapidly than maintenance charges. Expenditures on account of interest increased 79 per cent from 1912 to 1932, while debt requirements were enlarged 180 per cent. These two items, unfortunately, take a substantial part of the taxpayer's dollar, and, obviously, a larger proportion than would be necessary if the debt burden had not been allowed to grow so markedly after 1920.

This huge growth in municipal expenditures has been accompanied by a marked increase in the local tax burden. On account of the fairly effective restrictions upon their borrowing powers, the municipalities were unable to finance their increased appropriations by the issue of bonds, and therefore resorted to taxation. This was, of course, sounder financing than to have incurred debt; nevertheless, it threw a heavy immediate burden upon the taxpayer. And since about three-fourths of the total amount of local taxes rests upon property, and chiefly upon real property, the owner of that form of wealth has had to bear by far the greater part of the increase in taxation. Taxes assessed upon property for local purposes trebled during the period under examination, while assessed valuation fell short of doubling.² The result, naturally, was a pronounced increase in the tax rate.

¹ Compiled from Reports, Municipal Finances.

² Calculated from data in Massachusetts Tax Commissioner's Reports.

Now a certain part of the increase in the cost of municipal government in recent years has undoubtedly been necessary; nevertheless, extravagance and waste have contributed in no small degree to the unrestrained spending of public money. This aspect of the situation is tersely expressed in the following words:

Public officials who wish to make names for themselves; professional educators, who seem to believe that any one who attempts to fit the cost of education to the pocketbook of the community is hostile to education; semi-public bodies, who frequently clamor in the same breath for tax reduction and for expensive civic improvements; architects, contractors, city planners and many other groups, — all are demanding more public expenditures as time goes on.¹

MEASURES OF CONTROL

Turning now to the policy of the state with respect to local expenditures, we find that no direct attempt has been made by the central government to restrict municipal spending. From 1885 to 1913, as pointed out earlier in this study,² it attacked the problem of city expenditures by limiting the tax levy; but it did not see fit to incorporate that method in the legislation of 1913. Since that time it has sought to check the imprudent spending of local funds only through the very limited and indirect devices of the budget and the finance committee. Each of these methods will be considered briefly.

Under a provision of the municipal finance legislation of 1913,³ the budget system was prescribed for all cities other than Boston. This provision required the mayor of every city, or the commissioner or director of finance in the case of cities having the commission form of government, to submit to the city council an annual budget of the current expenses of the city, consisting of an "itemized and detailed statement of the money required." The city council was permitted to reduce or reject but not to increase or add any item without the approval of the mayor or commissioner or director of finance. Supplementary budgets might also be submitted.

¹ House Doc. 490 (1927), p. 10.

² See pp. 31, 32.

³ Acts of 1913, Ch. 719, Secs. 1, 20.

In 1910, towns were authorized but not required to appoint advisory, or finance committees, "to consider any and all municipal questions for the purpose of making reports and recommendations to the town."¹ (Town finance committees should not be confused with the state-appointed finance commissions discussed in Chapter VIII.) This was but a recognition of a device already in use in a number of towns.² In 1923, a further step was taken. Finance committees were then made compulsory in towns whose valuation for the purpose of apportioning the state tax exceeded one million dollars.³

As regards the budget, there is little evidence that it has been effective in checking the expenditures of cities. Faulty administration, and the weakness of the law itself in allowing supplementary budgets to be submitted, have to a large extent destroyed the value of this device. This conclusion is supported by the following statement of a special legislative commission created in 1928 to investigate municipal expenditures and undertakings.

The budget system contained in the municipal finance act of 1913 was an admirable one, but . . . its provisions have been disregarded or circumvented. . . . It is obvious that the practice is to so manipulate the finances and expenditures of municipalities that the budget has little meaning and less actual restraint upon expenditures. . . . Although many of our cities and towns presumably had budgets, the departments are permitted to expend money in excess of budget estimates, or, in many cases, are given to understand that if more money is needed it can be provided, the value of the budget thus being entirely destroyed.⁴

Finance committees, on the other hand, seem to have exerted an increasingly beneficial influence upon town finances.⁵ They possess no powers beyond those of investigation and of advising and recommending; but their recommendations regarding financial as well as other matters are usually accepted. After an exhaustive study of modern town government in Massachusetts, one competent student says of the finance committee that

¹ Acts of 1910, Ch. 130.

² Sly, *op. cit.*, pp. 208, 209.

³ Acts of 1923, Ch. 388.

⁴ House Doc. 1150 (1929), pp. 19-21; House Doc. 1240 (1923), p. 19; Senate Doc. 1 (1927), p. 5.

⁵ House Doc. 1240 (1923), p. 21.

its recommendations are always taken with great seriousness, and only on rare occasions does a town act against its advice. Its authority, indeed, seems to be steadily increasing. . . . It is perhaps not too much to say that from a limited advisory function designed both to relieve and to supplement the board of selectmen, the finance committee is on its way to become (as in some places it has already become) the decisive factor in town politics.¹

And the tax commissioner of Massachusetts is authority for the opinion that "the possibilities of using this existing machinery to control expenditures are almost unlimited."²

Now there is little question that the cost of local government in Massachusetts and, consequently, the tax burden, are, at present, dangerously and unnecessarily high. Political resistance and public inertia seem thus far to have hindered any widespread adoption of fundamental and permanent measures of economy, that is, measures designed to eliminate waste and inefficiency in municipal administration. Instead, local governments in general have been disposed to take the easier way out of their financial difficulties in the present emergency by postponing upkeep costs, cutting salaries, and abandoning the pay-as-you-go policy. At another point in this study³ we dealt with the Tax Title Loan Act and the Municipal Relief Loan Act of 1933 — emergency legislation which enlarged the borrowing power of the local governments so as to enable them to secure loans up to the amount of tax titles held by them and for relief purposes, subject, however, to the approval of the emergency board of finance created by the state for administering such loans. Although such relief was imperative for certain cities and towns then in desperate financial straits, the problem of adjusting expenditures to revenue was thereby merely postponed and not solved.

Enlargement of state authority over local financial administration, with direct restrictions of some sort upon the spending powers of the local governments, is a remedy that has been advocated for curbing municipal expenditures. Those who favor such action are of the opinion that the question of maintaining sound financial conditions in the cities and towns is not attacked at its

¹ Sly, *op. cit.*, pp. 211–212. See also pp. 149, 190, and 208 ff.

² Instruction to Assessors, No. 13, p. 2.

³ See pp. 67, 68.

source under existing legislation, which places restrictions only upon borrowing powers.¹ It is to be hoped, however, that the problem will be solved by the taxpayers themselves working through their local governments and exercising strictly local prerogatives, rather than by compulsion on the part of the state. In the last analysis, there is no good substitute for intelligent and unremitting activity on the part of local officials and taxpayers in controlling expenditures. Legislation alone cannot solve the problem, although it can contribute significantly to that end. And of course the central government can continue to be of invaluable assistance to the municipalities in an advisory capacity.

¹ See Report of the Executive Committee to the Board of Directors, Massachusetts Tax Association, Nov. 5, 1931, p. 5; Brief Submitted by the Massachusetts Tax Association, December 15, 1931, before the Honorable the Special Recess Commission to Continue the Investigation and Study of the General Subject of State, County, and Local Taxation Existing by Virtue of Resolves, 1931, Ch. 30; and Third Draft of An Act Creating a Board of Municipal Finance and defining its Powers and Duties, submitted by Massachusetts Tax Association, December 15, 1931.

CHAPTER X

SUPERVISION OF LOCAL TAXATION

STATE control of local finance in this country began in connection with taxation, and its original purpose was to correct and overcome the administrative defects of the general property tax.¹ In general, centralized tax administration has passed through three stages. In the first stage, central boards of review and equalization were created to adjust inequalities of local assessment. The second stage was marked by the removal of public service corporations from the jurisdiction of local assessors and the placing of them in the hands of state boards of corporate assessment. The third stage came with the establishment of state tax commissions and the assignment to them of more or less effective supervision of local assessors and the general administration of the entire tax system.

EARLY DEVELOPMENT

In Massachusetts, centralized tax administration has developed gradually from small beginnings in the seventeenth century and has passed through the foregoing three stages. At the present time the state exercises a certain amount of control and supervision over local assessment and collection of taxes and provides machinery for the review of local assessments upon appeal by aggrieved taxpayers. The central government has not, however, achieved extensive control over local taxation. In this phase of state supervision of local finance Massachusetts has been surpassed by a number of other states. This chapter will be devoted to a consideration of the comparatively limited accomplishments of the commonwealth in the field of control. As a background for the measures devised by the state for supervising local taxation,

¹ For the brief account presented in this chapter of the general growth of centralized tax administration, and of its development in Massachusetts in particular, I am deeply indebted to Professor Lutz, whose extensive treatment of the subject in *The State Tax Commission* (Cambridge, 1918) is recognized as authoritative.

brief consideration will also be given to the origin and development of taxation in Massachusetts, primarily in its local aspects.

We have already seen that the basic form of local government in Massachusetts, viz. the town, was established under conditions highly favorable to a large measure of local autonomy.¹ Therefore it is not surprising to find that in the very early years of the colony the towns raised funds voluntarily for their various public purposes "in any manner they saw fit to adopt." According to one authority, "previous to 1634, when the general court passed its first order regulating the taxing power of towns, the local units were assessing themselves for such general town charges as they deemed expedient."² Naturally this practice was not conducive to uniformity in methods of assessment. In 1634, therefore, the general court introduced a significant change in methods of taxation by providing that "in all rates and public charges the townes have respect to levy every man according to his estate with consideration of all other his abilities, & not according to the number of his persons."³

By this well known law of 1634, Professor Bullock informs us, the general property tax was established in principle in Massachusetts.⁴ This tax is still fundamental in the Massachusetts system of taxation, as indicated by the fact that at the present time taxes upon real estate and tangible personal property provide by far the greater part of the total revenue raised by local direct taxation.

Additional legislation of significance relative to taxation was forthcoming in 1646, which amplified somewhat the existing laws and sought to remedy certain inadequacies appearing in the tax system. Professor Bullock is also authority for the statement that the first detailed tax law, enacted in 1646, established a system of taxation upon "visible estate" real and personal, supplemented by a tax upon incomes of laborers, artificers, and others, which in time developed into a tax upon

¹ See Ch. I of this study.

² Day, *op. cit.*, p. 20. See also Osgood, *op. cit.*, Vol. I, p. 457.

³ Mass. Col. Recs., Vol. I, p. 120.

⁴ C. J. Bullock, "The Taxation of Property and Incomes in Massachusetts," *Quarterly Journal of Economics*, Vol. XXXI (1916), pp. 1-61, from which this historical summary of taxation in Massachusetts is very largely drawn.

incomes not derived from property. With these levies upon estates and incomes went the poll tax which had existed in the colony from the very beginning. The act of 1646, therefore, definitely established a system of direct taxation upon property, income, and polls.¹

Now, according to Professor Lutz, the first step toward centralized tax administration was taken by Massachusetts in the latter part of the seventeenth century when equalization of assessments was begun by a committee of the general court for the purpose of remedying the competitive undervaluation then appearing in the general property tax.² The explanation of the undervaluation which manifested itself at the time is to be found in the prevailing methods of administering the general property tax and in the growing tax burden. As we have already seen,³ a high degree of decentralization characterized the general property tax in the early years of the colony and indeed throughout the seventeenth century. In the words of one investigator, "The towns of Massachusetts prior to 1690 were permitted to raise their local revenue in any manner that appeared to be locally expedient. The result was naturally great diversity in local methods and practices."⁴ But with the increase in the tax burden which took place during the course of the seventeenth century, decentralized tax administration failed to secure "full returns of property and an equitable distribution of the tax burden," and therefore in 1694 the general court made provision for a central review of assessment by a legislative committee.⁵ This marked the beginning of centralized tax administration.

It may be noted that revaluation and equalization were carried on at irregular intervals by legislative committees of the provincial government until 1781, when by constitutional provision under the commonwealth ten years was fixed as the maximum period between valuations. Under the commonwealth this equalization of appraisals continued to be a function of the legislature until 1871, when that duty was taken over by the office of the

¹ *Ibid.*, pp. 1, 2.

² Lutz, *op. cit.*, pp. 19, 223-224.

³ See p. 14.

⁴ Day, *op. cit.*, p. 103.

⁵ *Ibid.*, pp. 51, 56, 75. Cited by Lutz, *op. cit.*, pp. 19, 223.

state tax commissioner which had been created a few years previously.¹

Thus the general property tax established in 1646 came down, together with the methods of assessment and collection, from the colony to the province and from the province to the commonwealth. "Up to 1862 Massachusetts had made no fundamental departure from the general property tax; and, except for comparatively unimportant exemptions, all property was subject to local taxation."²

But in 1862³ an act was passed exempting from taxation deposits in savings banks, and imposing upon the banks themselves an excise tax of one-half of one per cent. And two years later, in 1864,⁴ a radical change was introduced into the tax system of the commonwealth by the enactment of a general corporation tax law. This legislation provided for a tax on "corporate excess," i.e. the amount by which the value of the capital stock exceeded the value of the real estate and machinery locally assessed.

The second stage in the development of state administration of taxation came with the adoption of the corporation tax, for the law of 1864 also provided for the central administration of the new tax. To this end the office of state tax commissioner was created.⁵ After 1864, therefore, the state dealt directly with corporations, and stockholders were exempted from local taxation, although corporate real estate and machinery remained subject to local taxation.

The third stage in the movement toward a greater amount of state supervision of taxation in Massachusetts was reached in 1898 with the granting to the tax commissioner of certain supervisory powers over assessors and with the creation of the office of deputy tax commissioner to aid the commissioner in the performance of his growing duties.⁶ "With this enlargement," says Professor Lutz, "Massachusetts entered the field of supervision of

¹ Acts of 1871, Ch. 125. Lutz, *op. cit.*, 214.

² Bullock, *op. cit.*, p. 9.

³ Acts of 1862, Ch. 224. Bullock, *op. cit.*, p. 9.

⁴ Acts of 1864, Ch. 208. Bullock, *op. cit.*, p. 14.

⁵ Lutz, *op. cit.*, p. 215.

⁶ Acts of 1898, Ch. 507.

local assessments"; and Professor Bullock refers to it as "the first step . . . toward the establishment of central control over the assessment of property."¹ It should be noted, however, that the law stopped short of conferring compulsory power upon the tax commissioner in dealing with local assessors; his authority in this field was purely advisory.

It soon became apparent that the legislation of 1898 was not adequate to meet the growing need of effective supervisory control over the assessment of property, and therefore by an act of 1908² the powers of the tax commissioner were still further enlarged and he was given authority to appoint three supervisors of assessors who were to act as his agents in maintaining more direct and continuous relations with the local assessors. The scope and operation of this additional legislation has been aptly summarized by Professor Bullock as follows:

The act stopped short of authorizing him to direct the local authorities to assess property in the manner prescribed by law. In case local assessors failed to comply with such directions, the commissioner could merely notify the mayor of the city, or the selectmen of the town, of such failure, a provision which becomes almost humorous when one recalls that in many of the towns the selectmen are also the assessors. The tax commissioner was indeed authorized to cause an assessor guilty of any violation of the law for which a penalty was imposed to be prosecuted in the county courts, but for various reasons this did not meet the needs of the case. It happened that in some instances the local officials refused to obey the directions of the commissioner; but in a majority of cases his recommendations met with substantial compliance, so that the act of 1908 proved fairly effective.³

The supervisors were also required by the law of 1908 to furnish the local assessors with such information as the tax commissioner possessed relative to property in their respective districts, although its use on the part of the city or town was not obligatory, and the tax commissioner could only make recommendations in the matter.

At this point attention should be called to an act of 1907⁴ by which direct inheritances were made subject to the inheritance tax whereby as a result information coming to the probate courts under the operation of the law could be collected by the super-

¹ Bullock, *op. cit.*, p. 32.

² Bullock, *op. cit.*, pp. 32-33.

³ Acts of 1908, Ch. 550.

⁴ Acts of 1907, Ch. 563.

visors of assessors in the tax commissioner's department and transmitted to the taxing authorities of the cities and towns. Previously local assessors had gained a certain amount of information from probate returns through their own efforts. But after 1907 they "were continually supplied with more information about taxable personalty than they had ever possessed before, and in some cases more than they desired to possess."¹

After 1850 the general property tax began to break down seriously under the growing burden of public expenditures.² Disintegration took place especially in connection with intangible personalty, which found various means of escaping taxation. But the closer supervision over local assessment which followed the legislation of 1908 and the operation of the inheritance tax hastened the breakdown. The fuller information regarding property subject to taxation which came into possession of local assessors through inheritance tax administration led to a considerable increase in local assessments and also in the proportion of personal to total property assessments. The latter result, however, increased greatly the tendency for personal property to disappear from the tax rolls through changes in investments or domicile. Migration to favored residential towns was stimulated markedly by greater effectiveness in assessment, and at the same time, the demand for non-taxable investments increased notably.³

The next major change relative to taxation in Massachusetts was an outgrowth of these conditions and took the form of the income tax law of 1916,⁴ the primary purpose of which was to provide a better method of taxing intangible personal property than had prevailed previously. An obvious solution of the problem was to exempt intangible personal property from local taxation and subject the income from it to a state income tax. It should be noted, however, that real estate and tangible personal property continued to be subject to local taxation upon their capital value.

Now for the purpose of this study the particular significance of the income tax is the fact that it represented a further restriction by the state of the sphere of local taxation. Effectiveness of ad-

¹ Bullock, *op. cit.*, p. 33.

² *Ibid.*, pp. 33 ff.

³ *Ibid.*, pp. 7 ff.

⁴ Acts of 1916, Ch. 269.

ministration demanded, of course, that the assessment and collection of income tax be placed in the hands of the state tax commissioner, for "it was not to be expected that the tax would work well if administered in approximately three hundred and fifty different ways by approximately three hundred and fifty local boards of assessors."¹

At this point mention should be made of an act of 1915² which restricted somewhat the range of property subject to valuation by local assessors, although it did not diminish the amount subject to local taxation. This act transferred from the local assessors to the tax commissioner the duty of determining the valuation for taxation purposes of the poles, wires, and underground conduits, wires and pipes of all telegraph and telephone companies, the valuation thus arrived at to be certified by the tax commissioner to the assessors of cities and towns and accepted by them for the assessment of such property.³ Experience under local assessment of this type of property had demonstrated the impossibility of arriving at a fair valuation for it. Often it was assessed either above or below its fair value, or even not assessed at all. Hence in the interests of uniformity and fairness it was deemed expedient to substitute central for local valuation.⁴ It may be noted that up to that time this was the only class of property subject to local assessment in Massachusetts the value of which was not determined by the local assessors.

Finally, in 1928,⁵ motor vehicles were freed from the local property tax by an act which provided for an excise tax on such vehicles in lieu of the former local tax. This action was taken on account of the inequalities and injustices which had arisen in connection with local taxation of this type of property. The new law required the tax commissioner to determine the value of motor vehicles for the purpose of the excise, but local assessment and collection of the tax were retained.

¹ Bullock, *op. cit.*, p. 57.

² Acts of 1915, Ch. 137.

³ Amended by laws in Massachusetts, 1918, Ch. 138, to include machinery of telephone and telegraph companies. See also laws of Mass., 1913, Ch. 416, and 1933, Ch. 254.

⁴ Mass. Tax Commissioner's Report, 1916, p. 43.

⁵ Acts of 1928, Ch. 379.

At present, therefore, and as a result of the historical development thus briefly traced, we find that "all property, real and personal, situated within the commonwealth, and all personal property of the inhabitants of the commonwealth wherever situated, unless expressly exempt," is subject to local taxation in Massachusetts.¹

PRESENT STATUTORY AND ADMINISTRATIVE PROVISIONS

Consideration will now be given to the significant statutory and administrative provisions in force at present relative to assessment and collection of local taxes and to the supervision exercised by the central government.

As a first step in the assessment of local taxes, Massachusetts law requires all taxpayers, after due notice, to file with the assessors a "true list" of all their polls and taxable property in the form prescribed by the tax commissioner.² As a matter of practice, however, few people comply with this provision, except in unusual communities where they have been educated to do so by the assessing officials. Lacking that source of information as to taxable property, the assessors are legally obligated to take the initiative and to ascertain and assess it themselves. Thus, if taxpayers fail to declare their property, the assessors are required to ascertain as nearly as possible the particulars of the personal estate, and of the real estate in possession or occupation, as owner or otherwise, of any person not bringing in such list, and shall estimate its just value, according to their best information and belief.³

"Just value" becomes more definite in a further provision of the law, whereby assessors are directed to "make a fair cash valuation" of all property subject to taxation.⁴

There is no warrant in the law for assessment of property at less than its full value. On this point the supreme judicial court of the commonwealth has held as follows:

¹ See further, Gen. Laws, Ch. 59, Secs. 2-5, for detailed provisions as to property subject to taxation and to exemptions.

² Gen. Laws, Ch. 59, Sec. 29.

³ *Ibid.*, Sec. 36.

⁴ *Ibid.*, Sec. 38.

It is a violation of the statutes knowingly to make a valuation of property for the purpose of taxation at less or more than its full and fair cash value. The just proportion intended by the existing statutes is attained by assessing the property of different persons at a uniform rate, upon its fair cash valuation.¹

And the tax commissioner has said that

after considering all elements of value, he [the assessor] must not establish a valuation which by an accumulation of elements of value brings a sum total that will inflate the value beyond the price at which the property will sell in the market under fair conditions.²

Turning attention now to tax collection, we find that assessors are required by law to commit the tax list with their warrant to the tax collector within a reasonable time after completing assessment. The list must be in a form approved by the tax commissioner³ and can not legally be committed to the collector until he shall have given his bond "for the faithful performance of his duties in a form approved by the commissioner and in such sum, not less than the amount established by the selectmen or mayor and alderman."⁴ It is the duty of the collector, upon receiving the tax and the warrant, to send to each person assessed a notice of the amount of his tax.⁵

¹ *Lowell vs. County Commissioners*, 152 Mass., 375; cited in Instruction to Assessors, No. 13, pp. 8-9.

² Instruction to Assessors, No. 14, p. 5.

The following representative opinions of the supreme court of Massachusetts are of interest as definitions of "fair cash value":

"Value refers to exchange. The cash value of an article is the amount of cash for which it will exchange in fact." *National Bank of Commerce vs. New Bedford*, 155 Mass., 313.

"It refers to the actual judgment of the public as expressed in the price which some one will pay. . . . It means the highest price that a normal purchaser, not under peculiar compulsion, will pay at that time to get that thing." *National Bank of Commerce vs. New Bedford*, 175 Mass., 255.

"Ordinarily, in tax and eminent domain cases, the 'fair cash value' of property as the basis for an assessment or for the ascertainment of adequate compensation for the owner is the fair market value of that property at the time of the assessment or taking, expressed in the price which someone will pay for it in the open market." *Donovan vs. Haverhill*, 247 Mass., 69. These cases and others are cited in Instruction to Assessors, No. 13, pp. 17-28.

A member of the state board of tax appeals has also offered this definition: "Fair cash value at a certain date is the amount of cash which might have been obtained for the property to be valued, in the open market, after reasonable effort." *Ibid.*, p. 18.

³ Gen. Laws, Ch. 59, Sec. 54.

⁴ Gen. Laws, Ch. 59, Sec. 53, and Ch. 60, Sec. 13.

⁵ Gen. Laws, Ch. 60, Sec. 3.

Now at an earlier stage in this study it was pointed out that failure on the part of cities and towns to collect taxes promptly was an important factor contributing to the rapid growth of municipal debt prior to 1913.¹ Inasmuch as large amounts of taxes were allowed to remain unpaid, local governments were obliged to borrow in order to meet current expenditures. Delinquency on the part of tax collectors was the chief cause of the difficulty, and in some measure this was the result of lax practices in connection with bonding of collectors. Under the existing statutes collectors were indeed required to furnish bonds for the "faithful performance" of their duties; but only the approval of local authorities was required as to form and amount, and as a consequence the bonds furnished were often inadequate. This was a phase of local tax administration to which the tax commissioner promptly directed his attention after the powers of his department had been enlarged by the legislation of 1908.

As a first step toward the improvement of this situation the commissioner took advantage of the statutory provision that directed assessors to withhold the commitment of the tax list to collectors until their bonds had been given and approved, and instructed the assessors not to commit the tax list until the proper bond had been given and approved. At the same time, he emphasized the importance in local tax administration of standardization in the form of bond furnished by collectors (and treasurers), of minimum requirements as to the amount of the bond, and of having final approval of the bond itself vested in the tax commissioner. These recommendations were embodied in his report of 1908 and were repeated from time to time in later reports.

Finally, in 1926, the legislature recognized the fundamental soundness of these recommendations by enacting the provisions already cited relative to collectors' bonds. Town treasurers, by the same act, were made subject to an identical requirement. As a result, bonding of local tax collectors and treasurers has been on an unusually sound basis since 1926.

Another measure adopted by the legislature in 1926 designed to curb delinquency in tax collections was the requirement that the

¹ See pp. 38, 39.

local tax collector should "once each week or oftener, pay over to the treasurer all money received by him during the preceding week or lesser period on account of taxes and interest."¹

Delay in collection of taxes was also encouraged, oddly enough, by provisions of the legislature in 1909 specifically designed to hasten tax payment. An act passed in that year made uncollected taxes a lien upon property for a period not exceeding two years² and permitted cities and towns to charge interest at a rate not exceeding six per cent on all taxes remaining unpaid after a certain period.³ As a result, many persons assumed that they had the privilege of delaying payment of taxes for two years after assessment, and collectors likewise were inclined to allow taxes to remain unpaid for that length of time. This unsound practice was dealt with by the legislature in 1912 when the power of the tax commissioner to enforce earlier collection of taxes through coercion of tax collectors was greatly strengthened. By an act of that year⁴ the commissioner was given authority to bring action against a tax collector and his bond for recovery by the city or town of any uncollected taxes which had been outstanding three years or more. With this enlarged authority the tax commissioner proceeded immediately to investigate the case of every collector who had not accounted for taxes committed to him up to and including the year 1908. An attempt was made to induce each collector to finish his collection and make settlement at an early date. In all cases of failure on the part of the collectors to make a satisfactory attempt at early settlement, or in which it was apparent that settlements were not likely to be made in reasonable time, the matter was turned over to the attorney general for action in accordance with the provision of the law. Comparatively little was accomplished by resort to legal action, but the salutary effect of investigation by the tax commissioner and the pressure which he exerted upon collectors was immediate, and in many municipalities collections were promptly brought within the three-year period.⁵

¹ Acts of 1926, Ch. 65, Sec. 3.

² Acts of 1909, Ch. 490, Pt. 2, Sec. 36.

³ *Ibid.*, Pt. 1, Sec. 71.

⁴ Acts of 1912, Ch. 272.

⁵ House Doc. 1803 (1913), p. 29.

But the law was still merely permissive and not obligatory regarding coercive measures to be taken by cities and towns themselves to enforce prompt payment of taxes. This weakness the legislature endeavored to correct in 1913 by making all local taxes payable not later than October fifteenth of the year in which they are assessed and providing further that "on all taxes so assessed remaining unpaid after the first day of November interest shall be paid at the rate of six per cent."¹ No substantial change has been made in the law since that time. The most recent legislation provides that, beginning with 1935, six per cent interest is to be charged on all taxes remaining unpaid after November first of the year in which they are payable computed from October first of that year, and by way of penalty, two per cent additional on all amounts over three hundred dollars remaining unpaid after December thirty-first of the year in which they are payable.²

Summary means of enforcing the payment of taxes are also provided for in great detail in the Massachusetts statutes. They comprise taking and sale of property, arrest of the person, and suit for collection.³ But under conditions such as have prevailed during the past three or four years, non-payment of taxes creates serious financial problems which even these methods do not solve. When it becomes necessary for a city or town to take or purchase real estate for the taxes in any substantial amount, a revenue deficit is very likely to result; and when large amounts of taxes are tied up in tax titles, as has been true in Massachusetts in recent years on account of depressed economic conditions, it becomes a matter of major importance. As indicated at another point in this study,⁴ the problem was dealt with by the legislature in 1933 enlarging the borrowing power of municipalities up to the amount of tax titles held by them.

The provisions of the law under which the comparatively limited amount of control over local assessment is exercised by the tax commissioner may be summarized briefly.⁵ The commissioner

¹ Acts of 1913, Ch. 688, Sec. 1.

² Gen. Laws, Ch. 59, Sec. 57, as amended by Acts of 1933, Ch. 254, Sec. 42.

³ See Gen. Laws, Ch. 60, Secs. 15-86.

⁴ See pp. 67, 68.

⁵ Gen. Laws, Ch. 58, Secs. 1-8.

is authorized to "visit any town, inspect the work of its assessors, and give them such information and require of them such action as will tend to produce uniformity throughout the commonwealth in valuation and assessment." For the guidance of assessors, and collectors as well, he is required to furnish them with printed instructions and to give them his opinion on any legal question relative to their duties. He is also directed to furnish assessors with such information concerning taxable property as he thinks will be of assistance to them. When it appears to the commissioner that assessors are failing to value property in accordance with law, or are failing to use such information as he has furnished them, it is his duty to direct them to improve their procedure. "On failure by any assessor to comply with such directions of the commissioner he shall forthwith notify the mayor or selectmen of said failure, with any recommendations which he deems necessary or expedient." Clearly, the tax commissioner is wholly without compulsory power over local assessment.

The central supervision of local taxation provided for in law is exercised through the division of local taxation in the department of corporations and taxation. At present the division consists of a director and four supervisors. The supervisors are experts on local tax laws and procedure, and they visit all the cities and towns within their respective district as often as may be necessary to supervise and assist the assessors and collectors in the performance of their duties. Furthermore, the tax commissioner and the director and supervisors of the division of local taxation attend the various meetings of state and county associations of assessors, collectors, and treasurers. At these meetings a great deal of discussion takes place relative to assessment and collection problems, based upon questions submitted by local officials which arise out of their work. The members of the division of local taxation take an active part in these meetings. In this way the tax commissioner or his deputies are able to maintain a fairly close personal contact with the greater part of the whole body of local tax officials and thereby bring to them a great deal of valuable counsel.

In compliance with the law, the tax commissioner also furnishes

the assessors and collectors from time to time with carefully prepared material bearing upon their duties, such as, for example, the opinions of the state board of tax appeals, changes in the statutes, interpretations of the law by the supreme judicial court, and opinions of the attorney general. He is also in constant receipt of a wide variety of questions submitted by local assessors and collectors. These are treated in frequent pamphlets and circular letters sent to all tax officers.¹ In this way even the most remote local officials may keep in close contact with problems which are arising in the various cities and towns of the state.²

Now, no system of taxation, whatever its merits, is complete without means for dealing adequately with the real or fancied grievances of taxpayers. Massachusetts has long provided for remedies in tax matters; but in 1930³ the state established new machinery for the purpose in the form of a state board of tax appeals. The board is an administrative body⁴ appointed by the governor and having many of the attributes of a court. Appeals may come before it from two sources; first, from decisions of the tax commissioner relative to various state taxes; and secondly, from decisions of local boards of assessors in respect of local taxes. Actually, the law provides that a local taxpayer may take his appeal either to his local board of county commissioners, or, if he wishes, directly to the board of tax appeals. However, if appeal is made to the county commissioners, the local board of assessors may elect to transfer it to the state board of appeals.

When the board was established it was supposed that the greater part of its work would consist of appeals from decisions of the tax commissioner involving state taxes; but since 1930 conditions affecting property values have been such that the board

¹ Instruction to Assessors is the title of the pamphlet issued at frequent intervals by the tax commissioner; it contains a vast amount of extremely valuable matter dealing with local tax problems.

² The statements made here concerning the activities of the division of local taxation were drawn in part from a personal letter from the commissioner of corporations and taxation of Massachusetts under date of January 15, 1935.

³ Acts of 1930, Ch. 416.

⁴ The act originally stipulated three members, but on account of the unexpectedly large number of cases coming before the board, by amendment in 1933 (Acts of 1933, Ch. 321, Sec. 1) its membership until December 1, 1937 was increased to five.

has had to devote by far the greater part of its attention to appeals for local abatements. As the chairman of the board of tax appeals has said, "in times of falling values, there will always be increasing controversy between taxpayers and assessors."¹ Local assessors have not as yet adjusted their valuation to new conditions in all cases; hence it is only to be expected that an unusually large number of taxpayers should seek redress at the present time.²

It would be absurd to claim that state supervision of local taxation in Massachusetts has resulted in state-wide assessment of property at "fair cash valuation" and in maximum effectiveness of tax collection. It is probably not too much to say, however, that the central government has played a very large rôle in bringing about a fair degree of effectiveness, barring the recent years of economic depression, in both assessment and collection. This is especially commendable in view of the limited power which the tax commissioner possesses under the law. The results achieved have been secured solely through education, persuasion, and counsel, and by good central administration; and, throughout, the methods employed by the division of local taxation have been in keeping with the spirit of helpful co-operation with the local governments which has so strongly marked the whole program of state control of local finance in Massachusetts from the beginning, and most notably in its administrative aspects.

Finally, the recently-established board of tax appeals, set up by the commonwealth after careful study, seems to be affording reasonably prompt and equitable remedies for abuses arising out of local tax administration.

¹ Instruction to Assessors, No. 13, p. 7.

² For full details regarding organization and procedure of the board of tax appeals, see Instruction to Assessors, No. 13, and subsequent issues.

CONCLUSION

FOR the most part the conclusions to be drawn from this study have been presented at various points in the preceding chapters in connection with the respective topics treated. Consequently little more will be done here than to restate them and to emphasize again the more important results achieved by the commonwealth in its efforts to control local finance.

When the experience of Massachusetts with central control of municipal finance is surveyed as a whole, we find that it illustrates very clearly that as economic, social, and, perforce, political life becomes more complex, and as the fiscal demands upon government become heavier, local governments find themselves confronted with increasing difficulties in handling their financial affairs. Finally, the problems of financial administration reach the point where they exceed the capacity of local officials to deal with them wisely. The authority of the central government must then be invoked for the purpose of aiding as well as restraining the local communities in this extremely important respect. In other words, central control of local finance in Massachusetts was undertaken only because it was imperatively demanded by circumstances.

As to the results of the Massachusetts program of control, it is undeniable that the efforts of the state have wrought great improvement in the financial condition and practices of the cities and towns. Thus, as a consequence of limitations upon municipal borrowing powers and the provisions regarding debt payment, most of the earlier abuses of debt management have been corrected. Specifically, borrowing to meet current needs (except in the present emergency), the use of demand notes and the appropriation of trust funds, mismanagement of sinking funds, and the failure to meet obligations at maturity, have been eliminated, and some degree of success has been attained in controlling the growth of debt itself, although not as much as would be desirable. On account of the restriction upon borrowing for current purposes,

and also because the state now requires a small initial payment out of taxation for all permanent improvements, local finances to a gratifying extent have been placed upon a pay-as-you-go basis. A standard system of accounting has been adopted generally, and all municipal accounts are audited periodically. Uniform statistics of finances, of high quality, are now available for all cities and towns of the state. Finally, substantial improvement in assessment and collection of local taxes has been brought about through supervision of local taxation, and means are available to taxpayers for relief from abuses arising out of local tax administration.

The improvements in local finance just summarized are in large part the results of general legislation applicable to all cities and towns. But the contribution of the special device of the finance commission, as utilized by the state for bringing about additional control over the financial affairs of Boston, Lowell, and Fall River, must not be overlooked. In the case of the first two cities, the commissions have undoubtedly been of assistance to the local governments in financial matters, although their powers are extremely limited; but in the case of Fall River, the powerful board of finance has unquestionably saved the city from bankruptcy and is steadily restoring it to a sound financial condition.

Skillful administration as well as wise legislation has, in general, characterized state regulation of municipal finance in Massachusetts. The legislature has pursued a moderate policy and has not attempted to force the rapid acceptance by the local governments of a complete system of control. And on the administrative side the program of the central government has been marked by a spirit of helpfulness and an absence of desire to coerce the local communities. Officials charged with carrying out provisions of the law have gone to great lengths to enlist the interest and cooperation of local officials, and have carefully avoided compulsory tactics. Education and the stimulation of local initiative have been relied upon heavily for securing the acceptance in practice of sound financial principles. This method of procedure was dictated in part by the fact that the tradition of local autonomy is unusually strong in Massachusetts; but it is also testimony to the wisdom with which the whole program of control has been formu-

lated and applied. Finally, the administration of the system of control has been marked by long tenure of office on the part of the directing officials. This has been of the utmost value to the program, for it made possible a vital continuity of policy and the development of long-term measures.

It is also fair to say that state supervision and regulation of local financial affairs has not resulted in the curtailment of local self-government in any vital respect. On the contrary, local government has in reality been strengthened thereby, in that the regulatory measures of the state have been largely responsible for better financial administration in the cities and towns. In practice, then, local self-government and state regulation of local finance in Massachusetts have proved to be compatible rather than conflicting activities.

But despite the notable accomplishments of Massachusetts in correcting abuses in local financial administration, it must be admitted that the efforts of the central government have not been unqualifiedly successful.

In the first place, in spite of restrictions upon borrowing powers, a number of municipalities have incurred more debt than is warranted by good financial practice. To a considerable extent this may have been the result of an unduly liberal policy on the part of the legislature in granting special borrowing power. In short, the legislature has partly defeated through special legislation the beneficial results which the general laws were designed to accomplish.

In the second place, municipal expenditures have been carried to dangerous heights in recent years. The consequences of this have become most apparent during the present economic depression, when revenues have shrunk and taxpayers are finding it difficult to carry the heavy burden of taxation. In some quarters, therefore, it is being urged that control by the state over local finance be extended to include some form of restriction upon expenditures. Whether such enlargement of central control is desirable, is a debatable question; but certainly it is true that expenditures are a municipal problem of the first magnitude in Massachusetts at the present time, and that in some way they

must be brought under control if the generally enviable record of the cities and towns of the commonwealth is to be maintained. It is to be hoped that the one best method for curbing expenditures will be employed — that of vigorous, intelligent, and unremitting activity on the part of local officials and taxpayers themselves.

ADDENDUM

SINCE the foregoing was written and set up, the Twenty-eighth Annual Report on Statistics of Municipal Finances in Massachusetts has appeared, which reveals notable improvements in the financial condition of the cities and towns of the commonwealth during 1933 and 1934 despite serious financial difficulties confronting them as a result of the depression. A summary of those improvements is accordingly appended here.

The report shows, first, that current charges against revenue decreased from \$298,704,118 in 1932 to \$289,033,734 in 1933 — a reduction of \$9,670,384 in the cost of operating and maintaining municipal government for the year. At the same time, outlays, i.e. expenditures for permanent improvements financed principally by borrowing, decreased by the amount of \$19,540,961. Revenue for current charges, it may be noted, also fell from \$284,173,461 in 1932 to \$275,900,311 in 1933, a shrinkage of \$8,273,150.

The figures for 1933 also reveal a diminution in total municipal debt. On January 1, 1934, the net funded or fixed debt of all municipalities stood at \$311,290,687, a reduction of \$601,703 from the amount in 1932. Although comparatively small, this reduction was an indication of sound financing, for it took place even though over \$15,000,000 was borrowed by the cities and towns during the year for welfare purposes and Public Works Administration projects.

The debt record for 1934 is even more encouraging. By January 1, 1935, the net funded or fixed debt had been brought down to \$305,615,766, as compared with \$311,290,687 in the previous year. However, the figure for 1934 included \$4,093,500 Financial Year Adjustment Loans contracted by certain cities in adjusting their financial year to comply with legislation of 1934 providing for a uniform financial year ending December 31 for all cities. (Beginning with 1935, therefore, the fiscal year and the calendar

year will coincide for all cities and towns in the state.) If these loans are excluded from the debt on January 1, 1935, as they might well be on account of their extraordinary character, a reduction of \$9,596,765 is shown for the year 1934. The director of accounts refers to this as "a record that is outstanding and one of which we can be justly proud, especially in view of the fact that all governmental obligations have been paid, and municipal service maintained."

It is of interest to note that one reason for the ability of the cities and towns of Massachusetts to finance necessary activities during these difficult years without increasing their indebtedness as a whole is that many of them are now drawing upon reserves built up in past years when revenue was more easily raised.

An equally encouraging feature of municipal finance in Massachusetts during the past two years is the promptness with which the cities and towns have been discharging emergency loans contracted on the basis of tax titles under authority of Ch. 49, Acts of 1933. (See p. 67.) During the first eighteen months of the operation of the act, more than fifty per cent of the loans were repaid. In the opinion of the director of accounts, "there will never be any need of taxation to retire any portion of the loans." In fact, the act has proved to be more beneficial than anticipated in releasing frozen assets of cities and towns, even to those communities that had not experienced the least difficulty in borrowing, and has rendered it unnecessary for municipalities to levy additional taxes on account of the failure of some taxpayers to make prompt payment.

In short, it may be said that the record of municipal financial administration in Massachusetts during the past two years is further evidence of the effectiveness and fundamental soundness of the system of state control of local finance.

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