hear some one playing his scores, discovered that it was a timid blind girl who was at the piano. He went in and after playing for her tried to tell her the story of the beauties of the night without. Words failed him and then he turned to the piano and in those gloriously beautiful tones, never to be forgotten, played for her the glories of the stars, the moon, the whole heaven and the forest under the moonlight. And so the Moonlight Sonata came into being. The audience viewed the film, accompanied as it was by the music, spellbound and when it was finished, broke into tumultuous applause—the only applause of the evening in a program of unusual merit.

That is what the people want, the beauties, the glories, the possibilities of modern life and civilization, made real. Where are the civic dramatists who can do this thing? If Will H. Hays can find and develop them and give to them the necessary opportunity he will indeed be entitled to be enrolled as a benefactor of America.

REVIEW OF REPORTS ON FUNDED DEBT OF CITIES

BY C. E. RIGHTOR

Detroit Bureau of Governmental Research, Inc.

A Report upon the Community’s Outstanding Debt. By the Cleveland Municipal Research Bureau; June, 1922.


Duluth’s Bonded Debt. By the Taxpayers’ League of St. Louis County (Duluth); February, 1922.

A Study of the Financial and Accounting Offices of Kansas City. By the Kansas City Public Service Institute; February, 1922.

Budget Facts and Financial Statistics. By the Multnomah County (Portland, Oregon) Tax Supervising and Conservation Commission (an official bureau); March, 1922.

The facts brought out in these reports of bureaus of municipal research on bonded debt, debt incurring limits, sinking fund deficits, proposed and adopted remedies to eliminate these deficits and prevent future mismanagement of the public debt, evidence the increasing popular interest in these subjects. The work of the several bureaus in effecting economies for hard pressed taxpayers to-day proves the service such agencies are rendering in contributing toward a new area of safe and sane financing.

CLEVELAND’S CONDITION

The Cleveland Bureau recites that examination was made of the city’s bonded debt as of January 1, 1920, and again on January 1, 1922.

In the first study it was found that bonds had been issued for excessive terms, and bond funds had been expended for current expenses. An actuarial study of the general sinking fund showed a shortage of $6,121,083, or 50 per cent, and the city was piling up huge annual deficits. The Bureau at that time recommended bringing up the sinking fund to its actuarial basis by a $700,000 annual tax levy. This policy was adopted. The Bureau also recommended that proceeds of bond
sales should be expended only for capital improvements, and the term of bonds be limited to the estimated life of the improvements, as provided in the New Jersey law of 1916, and that only serial bonds be issued. These recommendations were made effective by the state legislature thru the enactment of the Griswold Act in 1921.

In its second study, the Cleveland Bureau found that on January 1, 1922, conditions were relatively worse than in 1920, due to delinquent tax payments, failure to levy a sufficient amount for debt charges, diversion of sinking fund revenues for general fund purposes, and arrearages of special assessments income. Debt charges in Cleveland in 1922 require 32 cents of every tax dollar.

In Ohio, due to the complicated Smith “One Per Cent Law” and its numerous internal limitations and amendments, including the Gardner Law which remedied conditions up to 1920, additional bond issues since 1920 will not affect the tax rate but will reduce the amount of available funds for operation. The law now results in a “free for all” by the city, schools, and county for available tax money, as the county is the unit of taxation, and there are no fixed tax limits for the subdivisions.

Conditions now point to the inability of Cleveland to keep the sinking fund up to actuarial requirements unless an additional $200,000 be levied annually. The water sinking fund has been put on a sound basis, due to the Bureau’s recommendation. The electricity and school sinking funds are actuarially sound.

The concluding recommendations of the Cleveland Bureau are: First, that proposed bond issues be carefully scrutinized; second, that the city plan its capital outlay program for a period of years; third, that the tax laws be revamped by fixing limits of taxation for each political subdivision; fourth, that debt charges be exempted from the tax limit; and fifth, that the city put some of its capital improvements on a “pay as you go” basis.

An interesting observation upon Cleveland’s financial troubles, though not mentioned in the Bureau report, is that some writers expect the city manager plan, which becomes effective in Cleveland in 1924, to solve its financial difficulties.

MINNEAPOLIS FINDS HUGE SHORTAGE

The Minneapolis Bureau finds the city approaching its bonding limit, but in urgent need of major improvements. The sinking fund is inadequate, and no financial policy is being followed. Bonds have been issued for short-lived improvements, as school room equipment, and for current operating deficiency. The Bureau’s protests at budget time had been unavailing until the current year.

The Bureau ascertained that, on an actuarial basis, there was a sinking fund shortage as of January 1, 1922, of approximately $5,000,000 out of the required $7,000,000. Computations show that the deficit will increase to $6,000,000 by December 31, 1922. The effect on the price of bonds is cited.

In Minneapolis the tax levy for sinking fund purposes prior to 1916 had been one mill; since 1916, due largely to the Bureau study then made, the levy was increased to three mills. But the Bureau now finds that even this increased levy is insufficient, and an additional annual levy is required.

As a result of its investigation, the Bureau recommends: First, a law similar to that of New Jersey covering the issue of bonds,—that the character of improvements shall be classified and a term of bonds prescribed for each class; that no bonds shall be issued for
current operation, and that all bonds shall mature in annual installments; second, that only serial bonds be issued in the future; third, that a "pay-as-you-go" plan of financing public improvements be adopted; fourth, that a three- or five-year plan of improvements and their cost be outlined; and, fifth, that a single budget be adopted, so that all improvements may be considered in conjunction with the request for operation and maintenance.

The report also suggests courses for the future control of bond issues and their redemption. The Minneapolis report is an excellent one, presenting the material in an orderly manner, with tables of bond maturities, interest calculations, etc.

**ST. PAUL HAS BLANKET LIMIT ON EXPENDITURES**

The St. Paul Bureau gives a clear-cut statement of bonds outstanding, debt limits, etc. Of the current tax dollar, 19 cents are required for debt services. The city's debt on April 1, 1922, was $13,933,600, of which $4,625,-600 were "cash basis" bonds and $3,402,000 "refunding" bonds. The Bureau concludes, therefore, that except for poor financing in past years, the city's debt on that date should be but $5,906,000.

The St. Paul charter provides that the sinking fund and the redemption of bonds shall not be included in a $30 per capita limitation on municipal expenditures. Interest charges are a part of the $30 limitation. The effect of future bond issues upon operating costs and taxes is pointed out.

The sale of bonds by competitive bidding is urged, although at least one private sale has been made. The Bureau advocates the New Jersey procedure in borrowing, by which the premium feature is eliminated.

Serial bonds are urged, and the disadvantages of term bonds cited as being that officials may not levy a sufficient amount for the sinking fund, or may omit the levy in certain years, as did St. Paul, and the public officials may not be financiers in investing the fund. It is asserted that the serial is more popular with the bond dealers than the term bond, although "the city usually has to pay a higher rate of interest on serial bonds, so the cost of the two is approximately the same."

An actuarial study of the sinking fund disclosed assets amounting to $802,938, and a deficiency of $1,163,-116. No analysis was made of why this condition exists. The remedy proposed and being followed to erase the deficit is by revising the sinking fund schedule through the next twenty-nine years, by using the present sinking fund to meet requirements so far as possible, and to recompute the sinking fund requirements on all outstanding bonds after that time, on an adjusted, shorter term, basis for the life of the bonds.

**DULUTH**

The Duluth Taxpayers' League calls attention to the shortcomings of the financial policy of that city. It is asserted that at one time in its history Duluth defaulted upon its bonds, and this action by any city works a permanent handicap in future borrowing.

The sinking fund was found to be deficient, as determined by an actuarial study, and it was proposed to place it upon a sound basis through an annual levy for a period of years. The issuance of serial bonds, only, is advocated.

**PAY-AS-YOU-GO ADVOCATED FOR KANSAS CITY**

The Kansas City Bureau discloses that the charter permits the issuance of bonds "for any purpose, of any
nature, whatsoever,” and that at present bonds are issued for a twenty-year period regardless of the nature of the improvement, due to a state law fixing a twenty-year term as the limit. Kansas City in 1915 issued $690,000 of bonds, and on April 18, 1921, had lying idle in its treasury $600,171 of the proceeds.

It is found that in the past years there has been no apparent relation between the amount levied and the requirements by actuarial computation for sinking fund purposes. For the years 1912 through 1915 no levy was made, although over $2,000,000 general bonds were outstanding. A two-and-one-half mill levy for debt charges, instead of actual needs, has resulted in a deficit in the sinking fund on April 18, 1921, of $1,046,242. The required accumulation should be $3,584,025, but is only $2,537,783. Of this total the general sinking fund deficiency is $649,558, and the water sinking fund deficiency $396,684.

As a remedy for these conditions in Kansas City, the Bureau recommends: First, that bonds should be issued only for permanent improvements; second, that a “pay-as-you-go” policy should be established. Many improvements being financed by bonds should be financed through current income, although the interest and sinking fund charges on the bonded debt are not included within the ten mill state limits on the city’s tax rate. Third, it is advocated that term bonds should not be for a longer time than the estimated life of the improvement; fourth, that bonds should not be issued until the proceeds are needed.

The Bureau also suggests that complete plans should be made before any bond proposal is submitted to the voters. The present provision that a two-thirds majority vote is necessary to carry a bond issue is deemed of little merit in the absence of such planning. It is recommended that premiums and unused balances of funds should be placed in the sinking fund, whereas the present policy is to add the premium to the fund available for financing the improvement. While the state constitution and statutes and the city charter require sinking fund bonds, the difficulty of administering the sinking fund is given as the chief argument against the sinking fund method. A sinking fund commission is advocated, rather than having the controller administer the fund as is now required by charter. Further, instead of depositing sinking fund cash in the general bank of the city, as at present is done, a separate bank account is recommended.

To remedy the deficiency in the sinking fund, it is found that the two-and-one-half mill levy should be continued even though the assessed valuation is rapidly increasing, and the charter should require a tax levy for debt services based upon actuarial computations. The report states that the serial bond is cheaper than the term bond, and is being generally advocated, and the necessary change is advocated in the constitution, statutes, and city charter to permit Kansas City to issue serial bonds.

MULTNOMAH COMMISSION SUGGESTS STATE SUPERVISION

In addition to its comments on the 1922 budgets, the Multnomah County Commission submits data on the county and city indebtedness. The Commission finds “that the assets of the general sinking fund of the city are considerably less than half adequate to meet reserve requirements; that assets of the water sinking fund are only slightly more than one-third of the reserve requirements; that the dock sinking fund shows a surplus.”
The general sinking fund of the city is found to have a deficit of $1,832,308 on November 30, 1921, with obligations on outstanding bonds of $3,135,704. The water sinking fund has a deficit of $1,857,644, with resources of $1,050,980. The large deficits in the two city sinking funds are due to setting aside inadequate installments in past years.

The Commission has computed that an annual levy of $200,000 is required to recoup the general sinking fund to adequacy.

As a result of its studies, the Commission suggests that restrictions be placed on local borrowing rather than on taxation; state supervision of local debt, which might go so far as to prohibit any bond issue but serials; a limitation of the term of bonds to the life of the improvements; adequate sinking fund installments for existing term bonds; and a bidding on the interest rate rather than the principal of the bond.

In the case of each of the foregoing reports the title indicates the particular phases of the problem of financing the municipal debt that are considered. Obviously, in such brief reports, certain pertinent facts and data must be omitted, but collectively the reports constitute a valuable addition to the current literature on the subject.