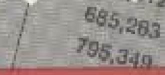

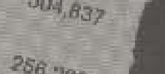

A Commission Report

City Financial Emergencies: The Intergovernmental Dimension

Advisory Commission on Intergovernmental Relations

Washington, D.C. 20575 • July 1973

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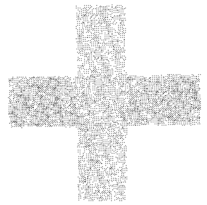
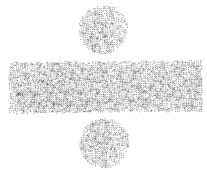
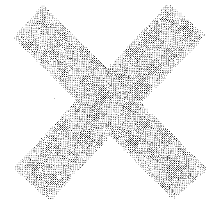
A Commission Report







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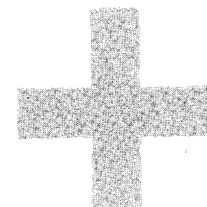

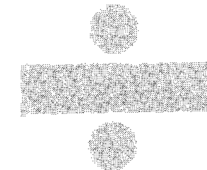

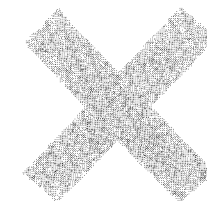

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Preface

The Advisory Commission on Intergovernmental Relations was established by Public Law 380, passed by the first session of the 86th Congress and approved by the President September 24, 1959. Section 2 of the act sets forth the following declaration of purpose and specific responsibilities for the Commission:

> "Sec. 2. Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.
>
> "It is intended that the Commission, in the performance of its duties, will—
>
> "(1) bring together representatives of the Federal, State, and local governments for the consideration of common problems;
>
> "(2) provide a forum for discussing the administration and coordination of Federal grant and other programs requiring intergovernmental cooperation;
>
> "(3) give critical attention to the conditions and controls involved in the administration of Federal grant programs;
>
> "(4) make available technical assistance to the executive and legislative branches of the Federal Government in the review of proposed legislation to determine its overall effect on the Federal system;
>
> "(5) encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation;
>
> "(6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities, and revenues among the several levels of government; and
>
> "(7) recommend methods of coordinating and simplifying tax laws and administrative practices to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers."

Pursuant to its statutory responsibilities, the Commission from time to to time singles out for study and recommendation particular problems the amelioration of which, in the Commission's view, would enhance cooperation among the different levels of government and thereby improve the effectiveness of the Federal system. One subject so identified by the Commission concerns State-local relations in dealing with city financial emergencies.

In the following report, the Commission focuses directly on the problem of maintaining cities as functioning governments when they have exhausted both their cash resources and their appropriation authority.

The Commission kept abreast of the research and findings of the study of city finances throughout 1972 and approved the policy recommendations on March 9, 1973.

Robert E. Merriam
Chairman

Acknowledgements

Virtually all Commission reports reflect the combined effort of many people. This report, however, reflects the initiative of Philip Dearborn, a consultant to the Commission and the director of this special study. The Ford Foundation's financial assistance made the study possible.

Professor George H. Hempel of Washington University, St. Louis, assumed the role of scholar in residence for purposes of this study. Professor Hempel's wide knowledge of municipal financial affairs were especially useful in the development of Chapters 2, 3, and 5 and the resulting findings and policy inferences. Mr. Dearborn and Professor Hempel along with Susannah Calkins shared overall responsibility for the staff work. Jo Anne Jimenez handled the administrative details and the clerical chores. Howard Holton provided statistical services. Carol Monical, ACIR librarian, responded with bibliographical and reference materials. Will Myers edited the study for final publication.

In the course of developing the study, Mr. Dearborn was encouraged by members of the Municipal Finance Officers Association, who assisted in carrying it out. Mr. Dearborn and the Commission benefited greatly from the insights of L. L. Ecker-Racz, Anthony Mandolini, Keith Prouty, Terry Sidley, Wade Smight, John Thompson, Frank Kennedy and Thomas Beitelman. Special appreciation for assistance goes to Bill Carter and Robert Quellar of the Citizens Research Council of Michigan and the individuals in various study cities who were generous with the information and insights into city finances.

Near the end of preparation of this report, William Wilcox, Secretary of the Pennsylvania Department of Community Affairs, arranged a special session of State and local experts in municipal finance to critique the study.

The Commission records its appreciation for the help extended by all of the individuals and organizations mentioned. Full responsibility for content and accuracy of the report rests, of course, with the Commission and its staff. The report was prepared under the general supervision of John Shannon, Assistant Director of the Commission's Taxation and Finance Section.

Wm. R. MacDougall
Executive Director

John Shannon
Assistant Director

The Commission and Its Working Procedures

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism, and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations, or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, staff is assigned to it. In limited instances the study is contracted for with an expert in the field or a research organization. The Staff's job is to assemble and analyze the facts, identify the differing points of view involved, and develop a range of possible, frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues, and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge and (b) a diversity of substantive and philosophical viewpoints. Additionally, representatives of the Council of State Governments, International City Management Association, National Association of Counties, National Governors' Conference, National League of Cities-U.S. Conference of Mayors, U.S. Office of Management and Budget, and any Federal agencies directly concerned with the subject matter participate, along with the other "critics" in reviewing the draft. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticisms and comments received and transmitted to the members of the Commission at least three weeks in advance of the meeting at which it is to be considered.

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The financial stability of America's cities has become a matter of public concern because of several recent events in both the private and public sectors.

The largest single railroad—the Penn Central—suddenly and with almost no warning became the largest bankruptcy in history in June 1970. The Penn Central case demonstrated that no private institution, regardless of size or past history, can be considered immune in the future to financial emergency. The case showed also that the financial health of the country is directly affected by financial emergencies in large private institutions. Subsequently, the granting of emergency Federal aid to prevent Lockheed Corporation from going into bankruptcy further emphasized the need for concern over the financial health of our major private institutions.

chapter 1

INTRODUCTION AND RECOMMENDATIONS

Following on the heels of the Penn Central and Lockheed incidents, significant questions were raised about the financial stability of major cities, when Cleveland, Ohio, one of the ten largest cities in the country, announced layoffs totaling over 2,000 employees and a reduction in work-force of 22 percent. Public attention thus became focused on the financial health of a major public institution. Prior to this time, major cities had often threatened layoffs, service cutbacks, or other retrenchment measures for political or labor negotiating purposes, but this was the first postwar incident of such an event actually occurring. President Nixon raised the health of the public sector to national prominence with his statement in January 1971 to the effect that ". . . if we do not have (welfare reform and revenue sharing), we are going to have States, cities, and counties going *bankrupt* over the next two or three years."[1] (Emphasis added.)

Did the President really mean that a major city, such as Cleveland, might go bankrupt in the way that Penn Central had? And if so, how would it actually occur, what would be its effects, and how could it be prevented from happening? Answers to these and related questions suddenly became important. To learn

more about the likelihood of financial emergencies in major cities and how they might be avoided, this Commission, with financial support from the Ford Foundation, in November, 1971, undertook an investigation of the financial condition of major cities.*

The objectives of the study are three fold:

1. to isolate specific factors that have played a decisive role in creating municipal financial distress in the past,
2. to examine the current fiscal position of thirty large cities to determine potential danger signals in municipal fiscal affairs, and
3. to outline the respective roles that States and the National government share in the treatment and prevention of financial emergencies in cities.

WHAT IS A FINANCIAL EMERGENCY?

The mayors of our nation's cities may feel that they face an imminent breakdown in financing and perhaps they do, but for this study it is necessary to distinguish between the routine of life in city hall and a *financial emergency*, or the related and perhaps synonymous terms: *municipal bankruptcy, urban fiscal crisis, acute financial distress*. The common and frequent use of these terms implies that there is a generally understood meaning. Such is not the case. As one recent study puts it, "Everybody talks about the urban crisis, deplores it, insists something be done about it, but few define or explain it. Definition is difficult—difficult because the impact of the crisis varies from person to person and group to group."[2]

To the residents of a city, a financial emergency may mean an increase in taxes or a curtailment of municipal services. To city employees, a financial crisis occurs if employees are laid off or pay raises are curtailed. To holders of a city's bonds, a financial crisis principal on its bonds. To members of civic organizations or minority groups in the community, a financial emergency occurs if there is a lack of funds to pay for urgently needed programs. And, finally, to city politicians, a financial emergency is any situation that generates voter concern at a level significant enough to affect the next election.

Because of this diversity of viewpoints, no single explanation of a financial emergency is entirely satisfactory. A discussion of several of the possible definitions illustrates the difficulty of determining what is truly a financial emergency.

A rigorous financial interpretation of emergency might conclude that a city is no poorer than its citizens, and that a city can be truly bankrupt only when its citizens are bankrupt. On this basis, when the residents of a city are unable to pay taxes, the city will be unable to meet its obligations and will experience a financial emergency. Although such a condition would certainly constitute a financial emergency, today's prosperity makes such a condition unlikely. There is no indication at the present time that even the worst off of our cities is likely to reach a position in which it has no effectively taxable wealth to support its government.

It is possible, however, to conceive of a city that contains a population whose income is so low as to preclude the city from supporting minimum services without disproportionately high taxes. Such a city would face a continuing crisis because it is confronted with either reducing services below a minimum level or increasing taxes beyond a feasible level. A financial emergency defined by this state of affairs depends however on two further definitions—what constitutes a minimum level of municipal services and a maximum acceptance tax effort?

Minimum levels of municipal service are extremely difficult to measure by either qualitative or quantitative criteria. Although the National Commission on Productivity is exploring possible methods for such measurements,[3] the only presently available measure is variation in the dollar value of inputs. Variations in inputs may be caused in turn by variations in the costs of the factors of production, or variations in the quality of service provided. Differences in services from city to city reflect regional and local traditions and legal requirements. Thus, the definition of minimum levels

---

*The main emphasis of the study is on city governments because in most urban areas they constitute the largest local units of government and they provide a wide range of critically important services. The conclusions and recommendations regarding cities may be equally relevant for county, school district and special purpose governments, even though they were not directly included in the study.

of service entails both careful study and value judgements of a major order.

Maximum tax effort as a factor in determining a financial emergency similarly eludes a definition. A review of the largest cities in the country indicates that the property tax rate as a percentage of true value varies from less than 1 percent to more than 5 percent. The ACIR index of tax effort shows that on an index of 100, major cities vary from an effort of 75 to 139.

Minimum levels of service are helpful to understanding but fail to explain municipal financial emergencies. Each city has its own standards by which it judges its service levels. To the extent that some municipalities have inadequate services or taxes that are high relative to other cities, they may in fact be experiencing a financial emergency. But such a judgement suffers from the lack of any means for objective measurement.

Typically, default on municipal bonds is considered a clear case of financial emergency. Under this definition, a city is considered to be in a state of financial emergency when it is unable to meet principal and/or interest payments on any of its bonds. This description is deficient, too, because it singles out for concern only the municipal bondholders. Cities have financial obligations to other groups, including employees, retired employees, suppliers, banks, and other government agencies which are not represented by certificate of indebtedness. Indeed, because of the laws passed during the 1930's to protect bondholders, it is entirely possible for cities to be failing in their financial obligation to most if not all the other groups listed but still not be in default on their bonds. It is important, therefore, that any explanation of financial emergency based on a failure to meet financial obligations include all types of obligations and not merely bond interest and principal.

To define financial emergency mainly in terms of a city's ability to meet its financial obligations is to ignore a city's responsibility to the people who are dependent on the city for services. A city may be meeting all its financial obligations and still not be meeting its citizens' needs. An examination of most major cities reveals high unemployment, large amounts of substandard housing, deficiencies in health care and nutritional levels, low educational achievements, and large numbers of elderly and welfare recipients.

These conditions present serious social and economic problems that need attention, but whether they constitute a municipal financial emergency is difficult to determine.

The question of what constitutes a financial emergency can be answered only by taking into account the wide range of municipal interests. For purposes of this study, a broad definition of financial emergency has been adopted. Thus, this study explores the causes and effects of situations in which a city reaches the point at which it can no longer perform its existing levels of services because of inability to meet payrolls, pay current bills, pay amounts due other government agencies, or pay debt service on bonds or maturing short-term notes because it lacks either cash or appropriations authority. This working definition is used throughout this study except in this historical section, which is limited to default situations.

SUMMARY AND RECOMMENDATIONS

General Problems

An incredible and seemingly insoluble array of financial difficulties confront urban governments in America today. The Commission has, in previous studies, called for a massive rearrangement in the scale of fiscal resources available to the three levels of government to strengthen our federal system. The Commission has noted that a strong partnership requires that each of the partners be strong, and this condition cannot be met if one partner has the bulk of the resources and the other one has the bulk of the expenditure demands.

Cities have the expenditure problems in our system today. It is in cities that are found outdated capital facilities, demands for increased services for minorities and poor persons, worn-out equipment, the inability to increase the tax base because of tax restrictions, the inability to exceed debt ceilings, citizen tax rebellions, competition with other governmental units for State and local revenue sources, and a general inability to make the revenue resources stretch to fit the expenditures mandated by the State and demanded by the people.

To correct these general conditions, the Com-

mission has previously recommended the following specific policies:

1. Sharing of a percentage of the Federal personal income tax with States and major localities.
2. Assumption by the Federal Government of all costs of public welfare and medicaid.
3. Assumption by State government of substantially all local costs of elementary and secondary education.
4. Encouragement of a high-quality, high-yield State tax system through a Federal income tax credit for State income taxes paid.
5. An active State role in the administration of the local property tax.

To the extent that these recommendations are now in the process of being fulfilled they represent a cause for hope in alleviating part of the fiscal pressures on cities. The rationale for the Commission's recommendations remains valid and their implementation remains a matter of high priority consideration.

The Commission in this study focuses directly on the problem of maintaining city governments as functioning financial organisms fulfilling their traditional role as effective institutions for social change.

Study Findings

The study reveals that, in general, the present fiscal problems facing cities need not cause a financial emergency in the technical sense, provided local financial management is reasonably good and provided there is no major national economic depression. Indeed the survey of 30 cities with serious financial problems done for purposes of this report failed to locate any cities in which conditions were such that timely action by local, or in a few cases, State officials could not avert or promptly relieve a financial emergency.

The 30-city survey revealed, however, that several cities are facing trouble in maintaining balance in their operating budgets. These budget-balancing problems are the result of a combination of factors; insatiable public demand for services held in check only by the need to impose taxes, the heavy impact of inflation on local governments both in terms of the goods they buy and the wages they pay, the slow recovery of revenues after an economic recession, and the recent rapid escalation of pension costs and other fringe benefit costs such as those for paid hospitalization. These factors and others are creating a fiscal tightness and a political situation in cities that make them sensitive and susceptible to financial crises. The margin of municipal financial flexibility has been trimmed, thereby challenging State and local officials to manage municipal affairs more prudently. Budgetary stringency in and of itself should not cause an emergency given reasonably good management.

Proximate Causes – The Warning Signs

The review of financial operations of the cities revealed certain common characteristics for those on the brink of financial trouble. Most important among these characteristics were:

- an operating fund revenue-expenditure imbalance in which current expenditures significantly exceeded current revenues in one fiscal period;
- a consistent pattern of current expenditures exceeding current revenues by small amounts for several years;
- an excess of current operating liabilities over current assets (a fund deficit);
- short-term operating loans outstanding at the conclusion of a fiscal year (or in some instances the borrowing of cash from restricted funds or an increase in unpaid bills in lieu of short-term operating loans);
- a high and rising rate of property tax delinquency;
- a sudden substantial decrease in assessed values for unexpected reasons.

Several other general conditions can cause financial problems. One is the existence of an under-funded locally administered retirement system. Secondly, poor budgeting, accounting, and reporting techniques may be indicators of impending financial problems. In some cases, inadequate financial management techniques may actually cause trouble because of the uncertainties they create.

Recommendation No. 1. State Assistance, General Supervision and Prevention of Local Financial Emergencies.

The Commission concludes that unsound financial management stands out as one of the

most important potential causes of financial emergencies in local governments. The Commission recommends therefore that each State designate or establish a single State agency responsible for improvement of local financial management functions such as accounting, auditing and reporting. The Commission further recommends that the agency be responsible for early detection of financial problems in order to prevent local financial crises.

Improper financial management practices are frequently a cause of or a primary factor contributing to financial emergencies. As a consequence of inadequate accounting and reporting, some cities have drifted into financial emergencies without realizing how serious their problems have become; others have found that the steps necessary to avert a potential financial emergency (such as a large increase in taxes or a reduction in services) are apparently politically impossible. In such cases, as well as in cases involving less serious management problems, the existence of a State agency—with responsibility for assisting local governments in their financial management will strengthen the ability of the local government to identify emerging problems and to take immediate steps to remedy the situation. The State agency can also shield the city from pressures to take financially unsound actions.

A State agency can promote sound financial management in cities by strengthening and improving municipal accounting, reporting, and auditing, and by sponsoring and promoting continued cooperative education and improvement in financial management practices throughout the State.

A number of types of State organization and operations can be effective. These range from a State Department of Community Affairs or a State Auditor's Office to a small board of State officials, or a bi-level, bi-partisan board appointed by the governor. New Jersey, New Mexico, North Carolina, Michigan, and West Virginia have all had valuable experience with active State involvement in regulation of local finance. In each of these States, the pattern of organization and operation varies because it is tailored to individual needs. The important considerations in the selection of an appropriate agency are that it is professionally well-staffed, that it is not influenced by partisan political considerations, and that it provide an adequate and objective hearing for local officials.

The State agency should at a minimum require a post-audit of each municipality and should review audited financial reports, giving attention to substantive as well as accounting details. Alternatively, the State agency may review and approve decisions throughout the entire financial cycle of the municipalities. Under either alternative, the State agency should have authority to require that deficiencies which it discovers be corrected within a specific time.

The State agency should be actively involved in efforts to improve municipal accounting, reporting and auditing. It should require that financial statements be prepared in conformity with generally accepted government accounting principles and that there is an unqualified opinion of an independent auditor with respect to the financial statement, or if an unqualified opinion cannot be expressed, the reasons, and any findings as to violations of State or local laws.

Recommendation No. 2. Regulation of Short-term Operating Debt.

The Commission concludes that the inability of local governments to repay short-term operating loans, especially those which have accumulated to a substantial amount over a period of several years, can be an important precipitating factor in causing financial emergencies. The Commission recommends therefore that the States enact legislation to regulate the use of short-term operating debt that carries beyond the end of the fiscal year. At a minimum, such laws should require that any short-term operating debt remaining unliquidated at the end of the fiscal year should be charged against general debt limits and provision for its retirement be automatically included in the next year's budget. The Commission further recommends that those States which presently have statutes regulating short-term operating debt take immediate action to enforce them strictly.

The inability to repay several years' accumulation of short-term operating loans has been the most important single factor in throwing a city into a financial crisis. Cities may find it tempting to "roll over" short-term debt from year to year in ever-increasing amounts.

The cumulative effect of such action over time may make the amount of short-term loans outstanding beyond the ability of the cities to repay from regular resources. It is particularly easy for a city to drift into such a dilemma because municipal accounting and reporting frequently fail to give proper emphasis to the amount of short-term operating loans outstanding.

Enactment of State laws regulating the use of short-term operating loans should prevent the cities from inadvertently getting into a financial crisis caused by improper use of such loans. Some States already have laws which have been casually enforced; in other States their purpose has been circumvented by use of financial gimmicks. States which already have statutes prohibiting or regulating short-term operating loans should enforce them strictly and, if necessary, act to strengthen them.

At present, State attention to regulation of short-term municipal operating debt varies widely, ranging from New Mexico (where all such debt must be approved by specified State agencies) to the great majority of States which have no controls at all over short-term municipal operating debt.

Private agencies such as banks, bond attorneys, and rating firms should show more concern for the misuse of short-term operating debt by cities because such debt carried beyond the end of the fiscal year is a threat to the financial solvency of a city.

It would also be helpful if more information were available about the extent of such borrowing. Cities should give proper emphasis to short-term operating loans in their financial reporting. The Census Bureau, in particular, should report short-term operating loans outstanding at the end of municipal fiscal years separately from bond anticipation and other types of short-term debt.

Recommendation No. 3. Locally Administered Retirement Systems—The State Role.

The Commission concludes that underfunded, locally administered retirement systems pose an emerging threat to the financial health of local governments. The Commission recommends therefore that locally administered retirement systems be strictly regulated by the States, or alternatively, be consolidated into a single State-administered system. At a minimum, States should require substantial funding for all local systems based on a reliable computation of full funding requirements.

There is a serious lack of information about the solvency of locally administered retirement systems, but in the several instances where good information is available, the implications are frightening. After an actuarial valuation, one major city found that its unfunded future retirement costs totalled $911 million—an amount in excess of its $705 million bonded debt. As a result of the valuation, its payments into the retirement funds increased in one year from $46.9 million to $87.9 million.

In another major city, retirement fund contributions for policemen and firemen, based on actuarially sound estimates, total 52 cents for every dollar of its police and fire payroll.

In these two instances, the cities have faced the facts about the costs of retirement programs, and have found the costs to be high and increasing rapidly. In many other cities the present real retirement costs and the trend of future costs have not been carefully determined.

At least three factors have been causing rapid and substantial cost increases in most city retirement systems. First, substantial pay increases for employees have directly affected future pension costs, because such costs are based on rate of pay at retirement. In those cities in which pensions already granted are tied to current salary rates, this problem is even more serious.

Second, many systems have been granting substantial increases in benefits. This occurs in response to more aggressive collective bargaining by government employees and because of the desire to maintain comparability with private and other government plans.

Third, there has been a change in retirement patterns, with increasing numbers of employees especially policemen and firemen, taking disability retirement or other types of early retirement.

With the current lack of knowledge as to present and future costs of most locally administered retirement systems and with the inherent local political problems in providing adequate funding from either employee or city contributions, it is essential that the States

assume at least two responsibilities. First, the State should require an accurate and current valuation of all local systems. Second, the State should require realistic funding based on such valuation. A well administered State system could provide for both these requirements and is perhaps the best solution over the long term.

Recommendation No. 4. State Action in Case of Financial Emergency.

The Commission concludes that the States are the logical providers of assistance to local governments in financial emergencies because States provide the basic constitutional and statutory authority for the operation of local governments. In addition, the credit and financial reputation of the State and of all the other local governments are adversely affected by a credit failure of a local government within the State.

Therefore, the Commission recommends that each State should establish by statute a set of guidelines to determine when the financial condition of local government necessitates State intervention and to set forth the requisite procedures for carrying out remedial State action.

State governments should assume prime responsibility when outside assistance or intervention is required because of a financial emergency. The State should assume this responsibility because it provides the basic constitutional and statutory authority for the operation of local governments and because the credit and financial reputation of the State and of all of its units of local government are judged by the events that take place within the State.

A financial emergency occurring in even one unit of local government can cause serious damage to the credit of governments throughout the State. States, therefore, should establish by statute a set of guidelines to determine whether a city's financial condition necessitates State intervention. Local fiscal conditions that would trigger State action might include:

- default in the payment of principle or interest on bonded debt or other obligations;
- failure for a specified time period to pay taxes and other contributions (such as those for social security) or withholding taxes due the State and other jurisdictions;
- failure for a specified time period (for example, two or more consecutive pay periods) to pay salaries due employees or pension benefits due retirees; or
- a floating debt in the form of accounts payable and other unpaid obligations which after deduction of reserves for payment exceeds 10 percent of the total appropriations of the last fiscal year.

Upon determining that *any* of the above conditions exist, and after a hearing in which municipal officials are given an opportunity to speak, the State agency should be authorized to take *any* of the following actions:

1. To make an analysis of all factors and circumstances contributing to the financial conditions of the local unit and recommend steps to be taken to correct such conditions.
2. To review and approve the budget of the local unit and limit the total amount of appropriations.
3. To require and approve a plan of liquidating current debt.
4. To require and prescribe the form of special report to be made by the finance officer or governing body to keep the State agency continually informed of the financial affairs of the local unit.
5. To have access to all records and books of account of the local unit and to require the attendance of witnesses, the production of books, papers, contracts, and other documents relating to any matter within the scope of the local unit.
6. To approve or disapprove any appropriation, contract, expenditure or loan, the creation of any new position, elimination of any position other than elective ones, or the filling of any vacancy in a permanent position by any appointing authority.
7. To approve payrolls or other claims against the local units prior to payment.
8. To act as an agent of the local unit in collective bargaining with representatives or employees and to approve any agreement prior to its being effected.
9. To appoint a local administrator of finance to exercise the powers of the State agency and to perform duties under the general supervision of the agency.
10. To employ experts, counsel, and other

assistance and to incur such other expenses as it may deem necessary.

11. To require compliance with orders of the State agency by court action if necessary.
12. To provide a temporary cash loan, or the guarantee of a loan from private sources, sufficient for the immediate needs of the city.
13. To make appropriate revenue recommendations to the local governments and to the State legislature.

There is no single standard pattern for the actions a State agency may be empowered to take when a city reaches a financial crisis, because both the conditions that determine the need for action, and the type of action to be taken will depend on the particular circumstances. States that have a pattern of detailed supervision of city financial operations by a large professional staff will prefer to act under guidelines that differ from those in States which rely on a small agency that merely provides advice and support to local government. It must be emphasized, however, that it is essential for each State to know under what conditions a city will be deemed to have reached a financial crisis and exactly what steps it should take under those circumstances. Past experience, both in the Depression years and in more recent times, has shown that in the absence of stand-by legislative authority, both cities and States waste much valuable time debating the need to take action and in obtaining necessary legislative authority. While these decisions are being made, the financial emergency steadily worsens.

Recommendation No. 5. Federal Action in Case of Financial Emergency.

The Commission recommends that Federal action in the case of local financial emergencies include situations in which interstate considerations require use of the Federal Bankruptcy Laws. The Commission recommends further that Federal bankruptcy provisions relating to local governments be updated and clarified as follows:

1. *The definition of "creditor" should be clarified in order to specify precisely what classes of creditors come within the scope of the statute.*
2. *Involuntary filings by either the municipal unit, the creditors, or the appropriate State agency should be permitted under certain specified conditions where the parties have seriously tried to gain approval of appropriate parties for filing of a reasonable plan for more than six months. In such cases, the State should be considered to be a party of interest in the proceedings.*
3. *The Court should require continuous supervision of a local government's compliance with the final court ruling, including a written annual progress report by the appropriate State supervisory agency or a court-appointed board if an appropriate State agency does not exist.*

The Commission on the Bankruptcy Laws of the U.S. is currently reviewing 11 U.S.C.A. Chapter IX as part of its work in updating and revising all the Federal bankruptcy statutes. We urge the Bankruptcy Commission to include our recommended revisions in its proposals for amending Chapter IX.

The adoption of our recommended revisions will update the statute in such a way as to make it more accessible to those who need to make use of it and more responsive to contemporary needs. At present, it is uncertain whether any creditors other than holders of bonded indebtedness are covered. By allowing involuntary filings and providing continuous supervision of local governments under court order, Congress can correct these major defects in the present law. In addition to these three changes, some minor technical changes should be made in the law to facilitate its use.

Footnotes

[1]Weekly Compilation of Presidential Documents, VII-w, January 1, 1971, p. 41.

[2]Allen K. Campbell, ed., *The States and the Urban Crisis* (New York: Columbia University Press, 1970), p.r.

[3]A June, 1971, National Commission on Productivity Report entitled, *Improving Productivity and Productivity Measurement in Local Government.*

To help identify factors that lead to financial emergencies and possible areas for the application of corrective policies, an examination of past financial emergencies has been undertaken. The analysis proceeds along three lines: (1) a summary review of all the recorded default situations and their causes; (2) a detailed analysis of several selected case studies of default situations in the 1930's; and (3) a statistical study of the quantitative factors associated with a sample of default situations in the 1930's. Unfortunately, the analysis covers only those situations in which local governments failed to pay principal or interest or both on their indebtedness because historical data on financial emergencies other than defaults is not readily available. Nonetheless an attempt is made to detect similarities between the causes of local defaults in the past and probable causes of potential financial emergencies in the current environment.

chapter 2

PAST FINANCIAL EMERGENCIES

THE INCIDENCE AND CAUSES OF PAST DEFAULTS

For convenience of analysis, the discussion of past defaults is divided into three time periods—(1) from 1839 through 1919; (2) from 1920 through 1945; and (3) from 1946 through 1969—corresponding to events characteristically leading to financial emergencies.

Defaults from the Early 1800's Through 1919

The small amount of local indebtedness—$28 million for the 44 cities and towns with population over 8,000 in the 1840's—and the antagonism toward any economic unit going into debt probably accounts for the absence of defaults on local indebtedness during the early years of American independence. The first recorded default by a local government unit occurred in Mobile, Alabama in 1838. During the next two decades prior to the Civil War, local government defaults—nineteen in all—lasted only short periods and appear to have been caused by bank failures and stringent money conditions.

Table 2-1

Recorded Defaults, By Type of Local Government Unit and Geographical Region 1839-1969

	1839 -49	1850 -59	1860 -69	1870 -79	1880 -89	1890 -99	1900 -09	1910 -19	1920 -29	1930 -39	1940 -49	1950 -59	1960 -69	Total Defaults	Number of Local Governments in 1967[a]
By Type of Unit:															
Counties and parishes		7	15	57	30	94	43	7	15	417	6	12	24	727	3,049
Incorp. munics.	4	4	13	50	30	93	51	17	39	1434	31	31	114	1911	18,048
Unincorp. munics.		4	9	46	31	50	33	5	10	88	7	4	26	313	17,105
School districts				4	5	9	11		14	1241	5	23	60	1372	21,782
Other districts				2	1	12	11	7	107	1590	30	42	70	1872	21,264
By Geographical Region:															
New England States[b]			1	1	1	2		1	1	7			4	18	3,045
Middle Atlantic States[c]	1	5	6	19	11	13	13	4	4	251	9	4	10	350	10,437
Southern States[d]	1		1	32	29	36	25	9	51	1863	16	33	76	2172	9,478
Midwestern States[e]	2	9	28	84	46	89	68	6	18	1152	18	34	76	1630	37,359
Southwestern States[f]			1	19	7	79	27	5	24	707	25	36	112	1042	9,588
Mountain States[g]				2		17	2	8	17	270	6	4	3	329	4,289
Pacific States[h]		1		2	3	22	14	3	70	520	5	1	13	654	7,052
Totals	4	15	37	159	97	258	149	36	185	4770	79	112	294	6195	81,248

[a] The number of local government units has changed rapidly. For example, in 1932 there were 127,108 school districts, 8,580 other districts, and 175,369 State and local government units.
[b] Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.
[c] Delaware, District of Columbia, Maryland, New Jersey, New York, and Pennsylvania.
[d] Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia.
[e] Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Nebraska, Ohio, North Dakota, South Dakota, and Wisconsin.
[f] Arizona, Kansas, New Mexico, Oklahoma, and Texas.
[g] Colorado, Idaho, Montana, Nevada, Utah, and Wyoming.
[h] Alaska, California, Hawaii, Oregon, and Washington.

Sources: Default Information in *The Daily Bond Buyer, The Commercial and Financial Chronicle,* and *The Investment Bankers' Associations Bulletin:* default lists from Federal Deposit Insurance Corporation, Life Insurance Commission, and U.S. Courts; and Albert M. Hillhouse, *Defaulted Municipal Bonds* (Chicago: Municipal Financial Officers Association, 1935).
Number of local government units from: U.S. Department of Commerce, Bureau of Census, Census of Governments, *1967, Vol. 1* "Governmental Organization" (Gov't Printing Office, 1969)

The number of defaults became especially serious in the 1873-1879 depression period, when approximately one-fourth of the indebtedness of major local governmental units was in default. *(See Table 2-1)*. The majority of the municipal defaults in that period can be traced to two sources—carpetbagger regimes and railroad aid bonds.

The indebtedness of local governments (which had grown from $40 million in 1850, to $200 million in 1860, to $516 million in 1870) had grown over twice as fast in the Southern States as in the rest of the United States. From 1860 to 1870, assessed valuation in the Southern States declined approximately 47 percent, and estimated true valuation declined approximately 59 percent.

A serious general economic down-turn starting in 1873 further reduced wealth and income in the South. Carpetbagger regimes in these States during the reconstruction period engaged in speculation and dishonesty and often carried away the proceeds of the debts incurred in the name of the local governing body.[1]

Approximately two-thirds of the defaults in the 1870's were on debts used to finance railroad facilities, which failed to fulfill optimistic predictions regarding earning power. The main defaulters of railroad aid bonds were the counties, but many cities and towns also failed to honor this type of municipal obligation. Railroad aid defaults were especially prevalent in the Midwest and Southwest, particularly in Illinois, Missouri, Kansas, and Iowa but also Arkansas, Nebraska, Michigan, Wisconsin, Minnesota, Kentucky, Tennessee, and Texas.[2]

The clouds over municipal credit from the 1873 depression period had scarcely cleared before defaults on real estate bonds appeared in various parts of the country.[3] Some local government real estate bonds had gone into default as early as the 1870's but the number of cases were overshadowed by the avalanche of railroad aid defaults.

The depression of 1893 brought another spate of municipal defaults. Although many of the issues in default were railroad aid bonds or real estate boom bonds, the number of defaults on general improvement aid bonds was much greater than in earlier periods.[4] Defaults in the 1890's could be traced to the use of public funds for private purposes, the boom philosophy of the late 1880's and early 1890's, the increase in municipal debt issued in the late 1880's and early 1890's, and the economic decline beginning in 1893. Although the net total of municipal bonds outstanding had risen to approximately $1 billion by 1893, the amount of municipal bonds in default during this depression was not as large as during the panic of 1873.

The history of municipal debt defaults from the late 1890's through the end of World War I was relatively uneventful compared to previous periods. A few defaults—for example, Elizabeth, New Jersey; Duluth, Minnesota; and Middlesboro, Kentucky—were caused by real estate booms that collapsed. A disastrous flood and hurricane led to the default on the bonds of Galveston, Texas. Also, a long succession of irrigation-district defaults, largely in the Pacific States, began in the early part of the twentieth century. Special assessment and special district defaults along with those on speculative projects such as irrigation districts furnished the majority of default cases in this period.[5]

Two features about the defaults in the period from the early 1880's through World War I need emphasizing. First, defaults occurred in both good and bad times. Second, only in major depression periods did the volume spread to anything like dangerous proportions.

Defaults from 1920 Through 1945

The forebodings of the municipal debt payment problem that reached a peak in the 1929 depression period appeared in three scattered areas prior to 1929. Between 1925 and 1927 some 55 local government units in the State of Washington went into default on special assessment bonds. In 1927, the State of Arkansas was forced to assume approximately $53 million or one-third of the indebtedness incurred by Arkansas municipalities to prevent their possible default. The defaults on indebtedness of Florida municipalities also started in 1927, following the collapse of the real estate boom in 1926.

Defaults became even more widespread after 1929 and beginning in late 1932 monthly records of defaults were published by *The Daily Bond Buyer*. *(See Table 2-2)*. Because many defaults and recoveries from default were not reported to *The Daily Bond Buyer* until after they occurred, monthly figures probably lagged somewhat behind the actual incidence of default

Table 2-2

Number of Recorded Defaults on Municipal Bonds, Selected Dates, 1933-1946

Date	Counties	Cities & Towns	School Districts	Other Districts	Total No. of Municipalities	Special Purpose & Special Assessment Districts	Total Political Subdivisions
1933: Jan. 1	172	309	135	28	647	201	848
July 5	212	410	152	32	809	256	1,062
1934: Jan. 1	324	669	343	60	1,397	369	1,765
July 1	359	758	562	168	1,848	537	2,384
1935: Jan. 1	349	851	623	209	2,033	683	2,715
July 1	341	840	853	274	2,309	893	3,201
1936: Jan. 1	309	816	840	272	2,237	922	3,159
July 1	274	767	831	245	2,117	1,054	3,171
1937: Jan. 1	258	735	806	238	2,037	1,014	3,051
May 1	207	704	690	253	1,854	990	2,844
1938: Jan. 1	186	755	732	245	1,923	1,164	3.087
May 1	183	750	733	243	1,909	1,173	3,082
1939: Jan. 1	177	650	644	210	1,681	a	a
1940: Jan. 1	168	578	606	137	1,489		
1941: Jan. 1	147	408	503	125	1,273		
1942: Jan. 1	87	307	407	87	888		
1943: Jan. 1	76	278	329	86	769		
1944: Jan. 1	30	165	134	12	341		
1945: Jan. 1	26	160	132	12	330		
1946: Jan. 1	26	152	129	11	317		

aSpecial assessment default data not available after May 1, 1938.
Source: *The Daily Bond Buyer*, selected issues, 1933-1946.

Table 2-3

Incidence of Defaults by Type of Local Government Unit, 1929-1937 (in millions)

Type of Government Unit	Total Number[a]	Number in Default[b]	Percentage of Total Number in Default	Net Debt of All Units, 1933[c]	Indebtedness of Defaulting Unit[d]	Percentage of Debt in Default
Counties	3,053	417	13.7	$ 2,391	$ 360	15.1
Incorporated municipalities	16,366	1,434	8.3	8,842	1,760	19.9
Towns and organized townships	20,262	88	.4	344	10	2.9
School districts	127,108	1,241	.9	2,040	160	7.8
Reclamation, levee, irrigation, and drainage districts	3,351	944	28.2			
Other special districts	5,229	646	12.4	1,599[e]	400[e]	25.0[e]
Total	175,369	4,770	2.7	$15,216	$2,690	17.7

[a]Based on number in William Anderson, *The Units of Government in the United States* (Chicago: Public Administration Service, 1934), pp. 1 and 24.
[b]Based on all defaults reported to *The Daily Bond Buyer* from 1929 through 1937.
[c]U.S. Bureau of the Census, *Financial Statistics of State and Local Governments, 1932* (Washington, D.C.: U.S. Government Printing Office, 1933).
[d]Indebtedness at time of default as reported to *The Daily Bond Buyer*.
[e]Combination of reclamation, levee, irrigation, and drainage districts and other special districts.

situations. The total number of local units with indebtedness in default more than trebled from 1933 to 1935 (the peak was 3,251 units in mid-1935). The number of recorded defaults trended downward for the remainder of the decade and on into the 1940's.

Recorded defaults on municipal bonds represented about 17.7 percent of the average amount of local debt outstanding in the early 1930's. *(See Table 2-3)*. The maximum total indebtedness of local units in default in one year, nearly $2.6 billion, was reached in 1933. This total began falling rapidly in 1934 and 1935 and had declined to approximately $0.2 billion by 1939.

Size of government provided no immunity from financial troubles as far as initial incidence of defaulting local units was concerned. More than a fourth of the 324 counties in default on January 1, 1934, had populations over 30,000. In late 1933, nearly 12 percent of the 310 cities with populations over 30,000 were in default while 4 percent of the 16,056 incorporated municipalities with populations under 30,000 were in default.

During 1934, local government defaults in 34 States were few in number and localized rather than statewide. But, defaults on the indebtedness of local government units with populations over 5,000 were numerous in 14 States. *(See Table 2-4)*. In nine of these States, defaulting units numbered 200 or more and, in all but one of these States, represented a serious statewide problem. Even in the States where the number of default situations was less than 200, conditions were serious enough to adversely affect the credit of the States and their local units.

A characteristic that differentiated the municipal debt payment difficulties in the 1929 depression period from similar experiences in previous major default periods was the high incidence of repayment of defaulted principal and interest in a comparatively short period. For example, all the 48 cities with populations over 25,000 that were in default in this depression period were reported out of default by 1938. In 1939, with nearly all the defaults in larger municipal units corrected, the accumulated past-due interest and principal did not exceed $50 million for municipal units with populations over 10,000. By 1945, nearly all the municipal units with populations over 10,000 had settled their default problems.

The causes of the municipal defaults in the post-1929 depression period need to be carefully studied because that era was the most recent in which the volume of municipal defaults became a widespread problem. Many of the causes relate to developments that occurred in the 1918-1931 period, when debt limits were hurdled, new overlapping municipalities were created, old municipal services were expanded, and many new municipal services were added. The yearly amount of long-term State and local debt issued had never exceeded $500 million before 1919. In every year from 1921 through 1931, the yearly amount exceeded $1.1 billion and the annual average for that period was nearly $1.4 billion.*

These aggregative figures hide the wide diversity in the growth of State and local debt throughout the United States and the effect of this diverse growth on municipal defaults. In

Table 2-4

Amount of 1934 Indebetedness in Default by Local Governmental Units With Population Over 5,000 (1930 Census) (in thousands)

Group 1[a]	
Arkansas	$186,142
Florida	299,863
Louisiana	90,616
Michigan	507,339
New Jersey	223,868
North Carolina	174,704
Ohio	273,471
Texas	151,865
Group 1 Total	$1,907,868
Group 2	
Alabama	$35,477
Kentucky	13,842
Mississippi	27,929
Oklahoma	16,766
South Carolina	18,195
Tennessee.	67,538
Group 2 Total	$179,747
Total for Both Groups	$2,087,615

[a]Defaulting local government units in State numbered 200 or more.
Source: Data from *The Daily Bond Buyer*.

*Combined State and local figures are used in some of the following analyses because these are the only form in which some data are available. The indebtedness and debt service charge of local governments dominated these figures as demonstrated by the fact that in 1932 outstanding State indebtedness was $2.36 billion and outstanding local indebtedness was $15.22 billion.

Table 2-5

Changes in Per Capita Net Debt and in Net Debt Per Thousand Dollars of Assessed Valuation, 1922-1932

States	State and Local Per Capita Net Debt 1932	1922	Percent Increase	Net Debt Per $1,000 of Assessed Valuation 1932	1922	Percent Increase
States with serious default problems						
Arkansas	$137.20	$ 51.03	168.8	$461.18	$157.80	192.2
Florida	357.74	95.96	252.0	985.73	233.17	322.7
Louisana	169.05	69.18	144.4	216.32	81.30	166.1
Michigan	157.66	94.09	67.6	94.68	61.01	55.2
New Jersey	278.61	116.40	139.4	168.81	93.16	81.2
North Carolina	164.84	69.03	138.8	188.21	72.48	159.7
Ohio	129.89	112.25	15.7	64.38	64.33	.1
Texas	125.93	73.71	70.8	176.44	105.36	67.5
Weighted Average	170.99	89.94	90.1	136.09	78.50	73.4
States with no defaults in 1935						
Connecticut	$ 98.59	$ 70.33	40.2	$ 51.00	$ 51.43	d
Delaware	121.20	98.32	23.3	99.56	98.86	.7
Maryland	158.28	81.43	94.4	94.57	71.76	31.8
Massachusetts	101.77	82.30	23.7	58.66	57.59	1.9
New Hampshire	67.81	36.16	87.5	46.70	26.09	79.0
Rhode Island	158.55	79.38	99.7	76.26	47.04	62.1
Vermont	75.50	34.03	121.9	61.64	39.03	57.9
West Virginia	86.33	46.58	85.3	80.72	33.69	139.6
Weighted Average	108.96	71.83	51.7	66.79	53.03	26.0
For all 48 states	141.17	79.90	77.3	107.63	69.71	54.4

[d] Slight percentage decline

Source: Bureau of the Census, Financial Statistics of State and Local Governments, 1932, and Public Debt, Washington, D.C., 1932 and 1924 respectively.

the 8 States in which defaulting municipalities number 100 or more on October 1, 1935, and where the default situation was a serious statewide problem, per capita net debt rose from $89.94 in 1922 to $170.99 in 1932, an increase of 90.1 percent. *(See Table 2-5.)* For all 48 States, per capita net debt rose from $79.90 in 1922 to $141.17 in 1932, an increase of 77.3 percent. For the 8 States with no municipal defaults on October 1, 1935, per capita net debt increased from $71.83 to $108.96, a rise of 51.7 percent. Thus, both the size of State and local debt and its growth may have been causal factors for some of the default situations in the period.

An accurate description of the causes of default requires intensive analysis of statewide figures within a given State, if the absolute per capita debt and the rapidity of debt growth of all units, or of units in a particular population class, are analyzed, a wide range of results can be found. For example, in New Jersey the per capita indebtedness in 17 of the 23 largest New Jersey municipalities was below the State average. On the other hand, a special commission study listed 17 municipalities with a per capita net debt of over $340 at the end of 1929.[6]

A study of the 191 cities with populations over 50,000 further illustrates the diversity of growth in municipal debt and the effect of this growth on the indebtedness of individual cities. Nineteen of the 191 cities had less than $50 per capita indebtedness in 1935. Not one of these 19 cities had difficulty in meeting debt requirements. At the other extreme, 19 cities had indebtedness of over $200 per capita. Eight of these cities were in default during the depression, 5 were forced to engage in extensive refinancing operations to avoid default, 3 others met their maturing obligations partially by the issuance of refunding bonds, and the remaining 3 cities felt the pinch of payless paydays and deferred commercial bills in order to meet their debt requirements on time.[7]

The large increases in the amount of municipal debt during this period appear to have been due to the traditional factors—demands for municipal services that exceeded willingness to pay taxes, overdevelopment of real estate, and the lack of meaningful controls over indebtedness. With the growth of municipal units of the 1920's, there were demands for many new municipal improvements and serv-

ices. Although most of these demands were justified, many municipal units were unwilling to pay the higher level of taxes required to finance these improvements and services; therefore, the indebtedness rose very rapidly. These increasing demands also provided an excuse for the use of local credit to further real estate subdivision speculation. Special assessment or local improvement districts were created to permit the improvement of undeveloped and speculative areas. If there were legal debt limits, they were often expressed in terms of a certain ratio of debt to assessed valuation. Changes in assessed values or issuance of debt in the name of an overlapping unit made these limits ineffective.

Rapid expansion in the amount of municipal debt is not a causal factor, *per se*. A more meaningful causal factor is that most local government units' ability to pay their debts did not increase nearly as rapidly as the debts themselves increased. Wealth and income grew at a slower pace than State and local debt. From 1919 through 1928, the coverage of net State and local debt by net wealth fell from 71.1 times to 35.0 times and the ratio of net State and local debt to national income increased from 0.0076 to 0.0156.

The Depression starting in 1929 severely lowered both wealth and income. In 1932, the coverage of net State and local debt by net wealth had fallen to 19.5 times and the ratio of net State and local debt to national income increased to 0.0388. Figures for the coverage of interest and estimated debt service charges by State and local revenues are available for 1922 and 1932. Interest payments were 8.3 percent and estimated debt service charges were 12.7 percent of State and local revenues in 1922. In 1932, interest payments had risen to 10.7 percent and estimated debt service charges to 19.7 percent of State and local revenues.[8]

The increases in the burden of debt service charges was particularly pronounced in areas that experienced a significant number of defaults. The net debt per $1,000 of assessed value increased much more rapidly from 1922 to 1932 for the eight States with the most serious debt problem than for the average of all States. *(See Table 2-5.)* By 1932, the net debt per $1,000 of assessed value for States with the most serious debt problems was more than twice the size of this figure for the eight States with no municipal

Table 2-6

Median Current Tax Delinquency Rates For Cities With Population Over 50,000

Year	Percentage of Current Year Taxes Delinquent
1928	4.7
1929	6.0
1930	10.1
1931	14.6
1932	19.9
1933	26.3
1934	23.1
1935	18.0
1936	13.9
1937	11.3
1938	10.7
1939	9.2
1940	8.7
1941	6.8
1942	6.0
1943	4.7
1944	3.9
1945	3.3

Source: Trend of Tax Delinquency, 1930-46, Cities of over 50,000 Population; by Frederick L. Bird. Dun & Bradstreet, Inc., New York, New York, 1947. Used by permission.

defaults on October 1, 1935.

It is also possible to investigate detailed aspects of the cash inflows available to meet the rapidly rising debt service charges during this period. Total State and local revenues remained at approximately the same level from 1927 through 1934, but the sources of these revenues shifted considerably. Cash revenues from property taxes declined approximately $700 million, from 60 percent to 48 percent of total revenues during the period, primarily because assessed property values declined and the proportion of property taxes that were not collected rose. Delinquency rose from less than 5 percent in 1928 to over 25 percent in 1933 for cities with populations over 50,000. *(See Table 2-6.)* State and local revenues from the Federal Government, meanwhile, increased approximately $900 million, from 1 percent of the total State and local revenues in 1927 to 12 percent in 1934. Despite employee cutbacks, payless paydays, and large reductions in capital outlays, State and local cash outflows excluding debt service charges proved very difficult to reduce. Current operating expenditures were higher in the early 1930's than they were in 1927, and assistance and subsidies increased from $93 million in 1927 to $815 million in 1934.

At first, the effects of high debt service costs, static revenues, and rising expenditure require-

ments were overcome by skipping sinking fund payments, by reducing liquid assets, and by additional borrowing. Short-term debt secured by uncollected property taxes was a popular source of cash but added to the burgeoning debt service costs. When the financial pressures persisted and the temporary sources of cash dried up because of bank failures, high interest costs, and loss of public confidence in municipal indebtedness, many government units were forced to default. The number of defaults in this period would have been greater if many municipal units had not forced funding and refunding issues on bondholders and had not used the proceeds from Federally aided relief debt issues to meet debt service payments.

The lack of financial planning and the generally poor quality of many government administrations also triggered default in some municipal units. For example, some debt issues depended entirely on the future growth of wealth and income in the area. In some cases, the officers of real estate companies became officials of municipal units and promoted bond issues to develop their companies' properties. Nevertheless, the incidence of excessive financial mismanagement or widespread unwillingness to pay in this default period was relatively less than in previous major default periods as evidenced by the relatively rapid and complete recovery in most of the larger default situations and the small amount of permanent losses relative to the amount of debt in default.*

Payment Difficulties Since 1945

Payment difficulties with State and local debt service have been relatively limited during the long period of prosperity following World War II. Information from all available sources indicates that there were 431 State and local debt default situations from 1945 through 1969.** Of these, 306 were reported only on bank examinations and may have been temporary or technical or both. Most of these 306 situations involved small municipal units and small quantities and nearly all were locally held—204, or 67 percent, were held by banks in the same city, town, or county, and 89, or 29 percent more, were held by banks within the same State.

A few other characteristics of the total number of default situations are discernible. Of the 431 total reported defaults, 119, or 27 percent, were by special districts other than school districts; and 94, or 20 percent, were on revenue bonds. The time distribution of the default situation for which the date of default was available revealed: (1) at least several defaults in every year after World War II; (2) no noticeable cyclical pattern; and (3) an increasing annual trend in the number of reported defaults in the postwar period.

The dollar amount of municipal indebtedness in default provides a clearer picture of the limited extent of the debt payment difficulties in the postwar period. The principal actually in default and principal upon which interest was in default at the time of default for all municipal local units that have defaulted from 1945 through early 1970 (including Series C of the Chesapeake Bay Bridge and Tunnel revenue bonds) is approximately $450 million. This total is roughly 0.4 percent of the total municipal debt outstanding in 1970. Approximately $406 million, or 90 percent of the estimated total amount of principal in default is the responsibility of 24 municipal units involved in major default situations.* Only 2 of these 24 major default situations involved general obligations, and these were general obligations of special districts.

Two causes appear to have accounted for the majority of postwar defaults by municipalities. First, some resort or suburban areas were forced to default on indebtedness issued to provide services for predicted population growth

*For a more detailed analysis of the causes of default in the 1929 depression period, see George H. Hempel, The Postwar Quality of State and Local Debt, NBER General Series No. 54 (New York: Columbia University Press, 1971), pp. 19-39.

**Information on payment difficulties in the postwar period was obtained from: (a) intensive searches through postwar indexes and issues of *The Daily Bond Buyer, Moody's Municipal and Governments Manual, The Wall Street Journal,* and *The Commercial and Financial Chronicle;* (b) examinations of *The Daily Bond Buyer's* default records and its correspondence in connection with its default survey in 1959; (c) correspondence with the Administrative Office of the United States Courts and with various municipal officials; and (d) interviews with and information from The Federal Deposit Insurance Corporations, The Board of Governors of the Federal Reserve Bank, The Committee for the Valuation of Securities for Life Insurance Commissioners, Standard and Poor's Corporation, Moody's Investors Service, Inc., and Dun and Bradstreet.

*The term *major default situation* is used to describe well-documented default situations that are clearly neither temporary nor technical and that involve at least $1 million of principal in default or principal upon which interest is in default. Defaults by the West Virginia Turnpike Commission, the Calumet Skyway Toll Bridge, and the Chesapeake Bay Bridge and Tunnel Commission constituted approximately $334 million of the total amount.

which failed to materialize. In many of these areas, revenues were far short of the amount needed to meet debt service payments. Second, extreme economic hardships in some small, rural communities forced these communities to default on their indebtedness. Declining population, depressed local economic conditions, and complete lack of financial planning or management were recurring characteristics of such communities.[9]

For purposes of this study a more detailed analysis of the incidence of the 114 defaults reported for incorporated municipalities in the 1960's was made. It revealed that of these defaults many were temporary or technical, and that only 34 of the 114 were on general obligations. In all 34 general obligation defaults, the involved municipality had a population of less than 5,000, and the amount of indebtedness in default was less than $1 million.

CASE STUDIES OF SELECTED DEFAULT SITUATIONS

Because each municipal unit's financial problems are unique, a more thorough analysis of selected default situations is appropriate. In-depth studies are presented for the two best-documented default situations in the 1930's—Fall River and Detroit. Summary analyses are presented for Asheville, Jackson, Fort Lee, Akron, Grand Rapids, and Asbury Park. These cases demonstrate both the diversity in the characteristics of cities that defaulted and the common elements among causes of their financial problems.

Fall River, Massachusetts[10]

Although the beginning of the 1929 Depression may have been responsible for the timing of Fall River's default, there had been a gradual build-up of fiscal problems over the preceding decade. The basic causes were the departure of a substantial number of textile factories from a "one industry town," the failure of Fall River to take any steps to adjust to its declining economic base, and the continuation by the city of unsound financial management. Because any of these conditions may occur in a city during the 1970's, what happened to Fall River is not merely an interesting example of Depression history but can also be a rather chilling lesson concerning the consequences of unsound financial management in today's environment.

Fall River had a population of 130,000, including 37,000 wage earners, in 1920. Its principal industry was its textile mills, which were 55 percent of the total assessed valuation of the city. During the first part of the 1920's, the city concealed its growing taxes by arbitrarily increasing property assessments rather than increasing the tax rate. For example, although the assessed valuation of all textile mills increased from $110 million in 1917 to $214 million in 1926, the tax rate increased only from $24.70 per $1,000 in 1917 to $28.40 per $1,000 in 1926.

The mill owners objected to the increase in their tax load caused by increased assessments because there was a substantial drop in the market values of textile properties during the same period. The owners protested officially as early as 1921, and finally in 1925 brought and won a series of law suits against the city. The tax refunds and settlements that resulted were in excess of $1 million, payable to 34 textile mills. Because the city was unable to pay this amount, it applied to the Massachusetts Legislature and received permission to issue a 5-year bond in the amount of $1,000,000.

In the late 1920's, a large number of textile mills began to leave the city because they were unable to meet competition from mills in the southern States that had cheap labor, lower taxes, and fewer laws protecting employees. Fall River had 121 textile factories of varying sizes in operation in the early 1920's; by 1932 there were only 20. The number of textile spindles in operation fell from 3.7 million in 1926 to 2.0 million in 1932. Employment in the mills dropped by more than 11,000 during the same period.

Because the city had to reduce the textile mills' valuation from a high of $214 million in 1926 to $149 million in 1930, a sharp drop in revenues occurred. Failure to make a corresponding reduction in expenditures led to large revenue-expenditure imbalances for Fall River in the late 1920's. These imbalances were serious enough, but the situation was made even more serious by the peculiarities of the budget calendar of Fall River. The city had a fiscal year coinciding with the calendar year. The Fall River budget was prepared and approved by March 2. During the period between January 1 and March 2, departments had authority to

spend sums not in excess of the previous year's monthly estimates. Property assessments for tax purposes were not completed until the end of August. The tax rate was set in September and the due date for taxes was October 15.

The fiscal calendar provided several opportunities for trouble. First, the setting of assessments after the budget was enacted provided an opportunity for juggling property valuations in order to maintain a specified tax rate. The officials of Fall River made good use of the opportunity. Second, the late date of tax collections made it necessary for the city to finance its operations by borrowing in anticipation of taxes during 10 months of each fiscal year. The combination of excessive valuations and reliance on borrowed funds was particularly dangerous because each year the city borrowed substantial amounts of money in anticipation of taxes, which subsequently turned out to be uncollectable because of abatements and court decisions. As a result, each year the city found itself unable to repay a larger amount of tax anticipation notes. The unpaid tax anticipation notes were carried forward into the next fiscal year. The following figures demonstrate the snowballing effect:

Year of Issue	Maximum Amount of Notes Outstanding Current Year	Amount Carried Forward to Next Year
1924	$2,250,000	$————
1925	4,500,000	1,500,000
1926	5,755,000	2,000,000
1927	6,165,000	2,315,000
1928	6,655,000	3,000,000
1929	5,715,000	3,100,000
1930	6,930,000	4,630,000

By November 1930, as the impact of the Depression was felt, the banks financing these notes were forced to examine applications for renewals more carefully, and the dangerous situation in Fall River reached a crisis.* In early November, the city defaulted because it could not pay $600,000 in tax anticipation notes and because the banks were unwilling (and possibly unable) to extend additional credit. At the end of November, the city defaulted on $1,200,000 more of these notes. In February 1931, the city was forced to default on an additional $1,200,000. In addition to the drying up of the city's credit, the situation was made even worse by refusal on the part of many taxpayers to pay taxes when due.

*The Board of Finance, subsequently appointed, commented: "It now seems difficult to understand how these constant increases from 1925 to 1930 could have failed to act as unmistakable danger signals to bankers and investors, long before the climax was reached in November, 1930." Perhaps the bankers looked at the relatively stable tax rate as evidence of the stability of the city's financial affairs.

Both the city officials and the city's creditors appealed to the Massachusetts State Legislature for help, and the Legislature responded by appointing a board of finance consisting of three members (one a resident of Fall River) that took over management of Fall River's government on February 19, 1931. The legislation created a virtual receivership for a 10-year period, with absolute power to control and manage all appropriations and expenditures of the city and to establish a definite fiscal policy that would restore the city's vanished credit.

The board found that Fall River's financial obligations were not restricted to the $3,000,000 of tax anticipation notes on which they had defaulted. Total liabilities were about $5,470,000 (including $840,706 of the ever-recurring tax refunds), and assets consisting mostly of unpaid back taxes, amounted to $3,804,000.

Detroit, Michigan[11]

The case history of the financial crisis in Detroit during the 1929 depression period parallels that of Fall River in many ways. Detroit, although a much larger city, was also a "one industry town"—dependent largely on the automobile industry. When this industry faltered in the Depression, the city was faced with declining revenues at a time of rising demands for expenditures. Detroit, like Fall River, was slow to react to a changing situation and persisted in unsound financial practices. But Detroit differed from Fall River in important respects: (1) the economic decline in its dominant industry was temporary rather than permanent; (2) no State agency came to Detroit's rescue; and (3) Detroit itself acted promptly and effectively to remedy the default on its indebtedness.

Detroit's finances during this period directly relate to its economic development. The automobile industry was the principal factor in its population expansion from 285,784 in 1900, to 993,687 in 1920, to 1,568,662 in 1930. In 1930, it is estimated that about two-thirds of Detroit's employment was in the manufacture of automobiles and in related industries.

The growth in Detroit's population was closely paralleled by a growth of its wealth, real property values, bank resources, bank credits

and deposits, postal receipts, mortgages recorded, and building permits. For example, assessed valuations increased from $238 million in 1900 to $3.775 billion in 1930. Clearly, Detroit was a boom city. There was presumably no end to its growth in numbers and in wealth, provided the production of automobiles continued to grow.

In an economic setting of continuous expansion, the financial problems of Detroit were taking shape. The first evidence of a break in the nearly runaway boom in real estate values occurred in the late 1920's when building activity and the transfers of real estate began to show a substantial decline. The pace of the earlier years had apparently been too rapid, creating a surplus of buildings that could not be absorbed. This caused property values created by speculation to decline. Therefore, even before the Depression, the city's property tax base showed signs of cracking.

Economic over-optimism was not the only cause of Detroit's difficulties. Services, expenditures, and bonded indebtedness mushroomed from 1900 to 1930 as shown in the figures at the bottom of this page:

Little attempt at financial planning was made prior to the mid-1920's. A long-term improvement and financial program was finally developed in 1925 by a committee of citizens appointed by the mayor, but changes in public office caused the program to be sidetracked. The program was revived two years later, but the city council failed to adopt it.

The yearly tax levy was kept constant at roughly $76 million in the late 1920's, which in turn caused increasing proportions of the city's costs to be met by the sale of bonds rather than by current taxes. Detroit's annual debt charges mounted rapidly and consumed an increasingly large proportion of the tax levy. By 1930, debt service charges had reached nearly 18.5 million, or one-fourth of the total tax levy.

The impact of the Depression was particularly severe in Detroit because of the city's spectacular growth and its dependency on the automobile industry. Detroit's total assessed valuation fell rapidly from $3.775 billion in 1930 to $2.310 billion in 1933 (its lowest level was $2.241 billion in 1935). In spite of the fact that the tax rate was increased from $20.65 per $1,000 in 1930 to $27.43 per $1,000 in 1933, the total tax levy declined. Furthermore, the amount of taxes collected in the year levied continued to decline, as shown by the following figures:

Year	Taxes Levied ($ millions)	Taxes Collected ($ millions)	Percent Collected
1930	76.1	64.7	85.1
1931	76.0	57.0	75.0
1932	72.6	47.5	65.4
1933	55.7	38.2	68.7
1934	55.5	41.4	74.6
1935	54.8	44.3	80.8

Although city officials probably could have done little about their declining revenues, their reactions to rising tax delinquencies were slow. The beginnings of the tax delinquency problem were evident in the late 1920's. By that time, a citizen's committee had already been formed as a protest against the tax burden. City officials seemed unconcerned as uncollected taxes skyrocketed in the early 1930's. For example, in the 1932 budget, in spite of the fact that $19 million of the 1931 levy was uncollected, a reserve for delinquent taxes of only $1 million was set aside—an optimism about the future that in retrospect is difficult to understand.

Detroit felt the impact of the Depression directly in the rapid rise in unemployment relief payments which were primarily financed by the city until 1933. From 1930 to 1931, for example, the average monthly relief caseload rose from 10,046 to 32,127 and the relief expenditures of the city of Detroit rose from $4.7 million to $13.2 million (compared with a budget provision for $400,000).

The magnitude of Detroit's financial plight was evident by 1931, when relief demands and the high debt service commitments were combined with declining real estate valuations and rising tax delinquencies. Faced by public criti-

Year	Number of City Services	Gross Appropriations		Tax Budget		Net Bonded Debt	
		Amount ($ millions)	Per Capita	Amount ($ millions)	Per Capita	Amount ($ millions)	Per Capita
1900	132	4.1	$14.25	3.7	$12.82	4.4	$ 15.50
1910	170	8.3	17.84	6.9	14.68	7.3	15.55
1920	251	40.9	41.12	35.1	35.31	26.7	26.85
1930	306	152.8	97.43	76.1	48.33	275.9	175.29

cism and the necessity of preserving the confidence of the bankers who were carrying the city's short-term notes, the city council and the administration rather reluctantly solicited advice and assistance from several citizen's groups. Two citizens' committees, the Stone Committee and the Committee of Industrialists, were particularly influential and applied strong pressure on the city to avoid default at practically any cost. They acted as agents to secure money for Detroit, either through bank loans or from prepaid taxes. The financial advice that they offered was often not accepted willingly. This reluctance was evidently due to a combination of political pressure to retain the status quo of municipal salaries and the lack of appreciation of the seriousness of the financial situation.

Under the pressures of unmet payrolls and the possibility of destroyed credit through default of interest or principal on short-term notes, however, Detroit took a number of steps in 1931 and 1932 to try to solve its financial crisis. The operating budget was reduced, and reduced again; hundreds of city employees were dismissed, and vacancies were left unfilled; salaries were slashed, and slashed again; services were curtailed, and offices consolidated; and taxpayers were prevailed upon to pay their taxes in advance.

Three aspects of Detroit's response to its emergency in 1931 and 1932 seem particularly interesting.

First, Detroit had to take action with respect to its city employees. The citizens' commissions put tremendous pressures on the city to attain economies through dismissals and salary reductions. The mayor and city council seemed to oppose these actions. They were forced in late 1931, however, to reduce the number of employees and to approve a 10 percent reduction of salaries up to $4,000 and a 20 percent reduction for salaries above that level. In April 1932, the city temporarily defaulted on its payrolls because the banks refused further short-term advances until salary reductions were effected. A temporary 50 percent reduction in all salaries and prearranged credit from New York and Chicago were sufficient to carry Detroit through June 1932. In July, in order to obtain additional funds by the sale of notes or bonds, the city adopted a permanent 5-day salary ordinance which reduced salaries another 13 percent. City employees were paid at this level by means of script from July 1932 through mid-1934.

Second, Detroit had to come to grips with its short-term borrowing policies. A tradition of carelessness existed with respect to such borrowing, in keeping with the general lack of financial planning in Detroit during the 1920's. Inadequate record-keeping made any careful analysis of the city's day-to-day financial transactions impossible. It was evident, however, that borrowing in anticipation of taxes included not only such borrowing as might have been made necessary by slowness in tax collections but also borrowing of substantial amounts to meet obligations incurred by the city which the current tax levy did not cover. These loans were paid off out of the following year's budget.

Third, Detroit lengthened maturities where it could. In the early 1930's the city refunded substantial amounts of notes and bonds with 3- and 5-year emergency serial bonds. In situations in which no market was found for these bonds, they were sold to the Reconstruction Finance Corporation. As a result of these refundings to stave off default, the debt service charges on bonded indebtedness rose to approximately $31 million or 43 percent of the taxes levied by 1933.

Analysis of Detroit's operating financial reports from 1930 through 1932 shows that the city did all that could reasonably be expected in its efforts to meet the emergency successfully. Operating economies totalled $6 million in 1930 and $12 million in 1931. In late 1932, when it appeared the city would have an operating cash deficit of $20 million, Detrcit, strongly aided by its citizens' committees, got emergency legislation for a special issue of $20 million of tax anticipation notes. Final arrangements on this issue were about concluded on February 14, 1933, when all banks in Michigan were closed by government proclamation. Detroit thus had no choice but to default.

Plans were made immediately for a refunding operation. It was tentatively agreed by the city and representatives of a large number of its creditors that bond anticipations and revenue notes as well as bonds maturing between February 15, 1933, and June 30, 1937, should be refunded into 15-year serial bonds. Before final action was taken on these proposals, however, a change in administration took place.

The new city administration and a newly formed bondholders' committee decided that the situation called for an interval in which the city could regain financial operating stability. Plans were made to revamp the debt structure to allow the orderly retirement of short-term debts and give relief from the excessively heavy maturity schedule of immediate years. A refunding plan to accomplish these objectives was agreed to in July 1933. The agreement provided for the refunding of all the city's indebtedness except for the self-supporting utility issues. All tax-supported bonds maturing during the next 10 years were converted into callable sinking fund bonds maturing in 1962 and 1963. Bond anticipation notes were replaced by callable term bonds maturing in 1962. Tax and revenue anticipation notes were funded into callable term bonds maturing in 1952. By April 1934, practically all the holders of outstanding indebtedness had approved the plan, and the agreement was declared operative.

The refunding operation cost Detroit several million dollars in fees and other payments and in excess of $125 million in added interest charges. The refunding plan worked out even better than could have been anticipated. As economic conditions in the city began improving, there were large cash flows from past delinquent taxes. These cash flows were sufficient to enable the city to meet refunding debt service payments due in the mid and late 1930's and to restore the salary reductions forced on city employees.

World War II and the automobile boom following it enabled the city to meet the remaining refunding debt service payments.

Asheville, North Carolina[12]

Asheville is a resort and health center. Its population had grown from 28,800 in 1920 to 50,193 in 1930, primarily because of its altitude and equable climate. During the boom years of the 1920's, the city went on a spending orgy that featured both operating deficits and heavy capital outlays. By 1930, the per capita indebtedness of Asheville was roughly six times the national average. During the same decade, city officials and leading citizens discouraged manufacturing plants from locating at Asheville in order to preserve the city's attractiveness as a resort center.

The city was hard hit in the early stages of the Depression. It tried to overcome the unemployment burden and declining revenues by issuing large amounts of short-term indebtedness. When several banking failures in late 1930 and early 1931 cut off the supply of such short-term funds the city was forced to default. Asheville first defaulted on May 1, 1931. The city's position continued to deteriorate. Asheville's population declined 20 percent in the early 1930's. It lacked an adequate tax base for its large indebtedness. Tax delinquencies increased from 21 percent in 1931 to 58 percent in 1933. Debt service charges aside, the combined effect of these forces caused substantial operating deficits for Asheville in 1931, 1932 and 1933.

Efforts to redeem Asheville's continuing default situation were made. Operating expenditures were reduced over 50 percent from 1931 to 1934, and the State had taken over responsibility for relief, school operating costs, and road maintenance. By that time, however, Asheville had an excessive debt burden that stood in a class by itself. The city's indebtedness (including some overlapping debt) was $845.95 per capita, which was 85 percent of assessed valuation and 68 percent of estimated true value. This compared with a median per capita debt figure of $97.64 for cities of this population size. Only when Asheville was allowed to scale down both interest and principal payments on its indebtedness was it able to restore some semblance of financial balance.

Jackson, Michigan[13]

Jackson, with a population of 55,187 in 1930, is particularly interesting because its debt burden in the early 1930's was low—direct and overlapping debt per capita and the ratio of debt to assessed valuation were substantially below the average of Michigan's municipalities. Furthermore, Jackson was successful in reducing its operating expenses, excluding relief, by 48.3 percent from 1930 to 1933. Yet, Jackson was forced to default in March, 1933.

The city's revenues declined nearly 50 percent during the 1929 Depression: Jackson's heavy dependence on the volatile auto industry and continuing loss of large business (probably caused by the movement toward concentration of production activities) that had started in the mid-1920's were external factors that reduced

assessed valuations and employment. These declines in turn led to reductions in taxes levied and even larger reductions in taxes collected. Jackson's relief expenditures rose rapidly because of these same conditions, and until late 1933 there was little Federal or State assistance in this functional area. The drop in revenues and rise in expenditures coupled with a 10-mill charter tax rate limit, caused the city to suffer yearly operating deficits from 1927 through 1933.

These recurring deficits reached a peak of $198,317, or 22 percent of total receipts, in 1932. Banking failures restricted the city's possibilities of short-term borrowing. The city defaulted when cash reserves ran out and it was no longer possible to borrow funds.

Refunding of interest due and principal maturing through mid-1935 gave the city the breathing spell it needed. Employment and production began to improve by late 1933. Collections of previously uncollected taxes provided additional revenues and the cost of relief was partially assumed at the Federal and State level. The city had a small operating surplus by 1934; and in spite of the relatively low tax rate limit, was able to meet its debt service charges, which started again in mid-1955.

Fort Lee, New Jersey[14]

The case of the borough of Fort Lee, which had a population of 8,759 in 1930, is unique because it demonstrates the potential effect of the removal of assessed value because of highway construction (or other public works) and because it is the only known trusteeship under the Federal Municipal Bankruptcy Act over which a bankruptcy court has maintained jurisdiction for several decades.

Fort Lee's financial troubles began in 1928 when the Port of New York Authority began construction of the George Washington Bridge across the Hudson River. Many people predicted that Fort Lee would become a second Brooklyn when the bridge was completed. The economy of the country at that time presented an ideal opportunity for the land boom that developed. Three large tracts of vacant land, the largest of which was known as Palisade Gardens, were mapped out by owners and real estate promoters. Lots in Palisade Gardens were rapidly sold, and Fort Lee pledged $3 million for the paving of streets and sidewalks and the installation of utilities. Borough officials intended to repay the borrowed money by levying improvement assessments against each individual lot owner.

There was, however, a negative side to the big improvements. This was the excessive loss of assessed property values, for which no one could be blamed. First, the Port of New York Authority, in order to build the George Washington Bridge, was required to condemn some of the highest-tax-yielding property in the borough. Second, the New Jersey State Highway Department condemned and purchased a still larger portion of the high yielding property in the borough to provide a network of approaches to the bridge. Third, much of the valuable property on the top of the Palisades facing the Hudson River and New York City was purchased and then conveyed to the Palisades Interstate Park Commission, thereby causing its removal from the tax rolls of the borough. From 1928 through 1932, Fort Lee lost more than 40 percent of its assessed valuations through these three causes.

Fort Lee faced another revenue problem. By 1933, the Depression had caused current tax collections to drop below 60 percent of the current year's tax levy and Fort Lee had significant amounts of tax anticipation notes continually outstanding.

By 1933, Fort Lee had outstanding bonded indebtedness of over $4 million (excluding tax anticipation notes). Early in the year, the borough defaulted on its interest payments, and by the end of the year it was unable to meet either interest or principal payments that were due.

In 1934, two bondholders' committees—one for residents, the other for nonresidents—were formed to protect the interests of those holding Fort Lee's obligations. These committees petitioned, as provided by New Jersey statute, for the newly created Municipal Finance Commission to be placed in charge of Fort Lee's financial affairs. The petition was approved in State court. The Municipal Finance Commission appointed its own auditor for Fort Lee and took over the fiscal affairs of the borough.

Although both bondholders' committees worked in close harmony to develop a refunding plan that would be acceptable to the mayor and council, the Municipal Finance Commission, and creditors, no actual progress was

made. Not one creditor of Fort Lee had been paid any principal or interest on the obligations of Fort Lee during the period between 1933 and 1939. In the meantime, new building in Fort Lee had come to a halt. The borough had no credit, and the price of its bonds in the market had dropped to 20 percent of par value. Moreover, no lending agency would lend money on mortgages on property in Fort Lee for any new construction within the borders of the borough.

Finally, in 1939, a debt-refunding plan was filed under the Federal Municipal Bankruptcy Act of 1937 (details of this Act are discussed in Chapter 5), with the unanimous approval of the mayor and council, members of the two bondholders' committees, and members of the State Municipal Finance Commission. Ninety-nine percent of the creditors finally approved the refunding plan. The Federal District Court declared the plan final and binding and announced that it would take continuing jurisdiction over the plan until all the refunding bonds, some maturing in 1979, were paid (details on the refunding plan and supervision are in Chapter 5).

Akron, Ohio[15]

Akron, with a population of 255,040, ranked 35th in population but 11th in industrial output in the United States in 1930. Akron's industrial base consisted of the largest four rubber factories in the world; but there were also 170 other lines of manufacturing. Because of its primary dependence upon the rubber industry, the city was severely affected by the Depression as the following data illustrate:

Year	Number Employed	Industrial Payroll ($ millions)	Industrial Sales ($ millions)
1929	65,726	119.6	624.9
1930	51,580	93.8	539.3
1931	42,788	55.8	319.4
1932	38,500	52.2	318.6
1933	41,145	48.9	295.6
1934	50,610	71.1	381.2
1935	51,405	78.6	416.6

The city had allowed itself to become vulnerable to an economic decline by allowing short-term debt and debt service charges on bonded debt to grow rapidly in the late 1920's. The city had had substantial operating deficits in the late 1920's and early 1930's. In 1932, as tax collections fell (only 60 percent of levies in 1933) and several local banks were forced to close as a result of economic pressures, the city was unable to cut operating expenditures rapidly enough and was unable to obtain additional financing. It defaulted on its short term notes in February 1932 and defaulted on some of its bonded indebtedness later that year.

Akron appeared to regain some control over its financial operations by late 1934. Improvements in the automobile industry had begun to increase activity in Akron's tire factories by that time. The increased payrolls and vigorous efforts to collect delinqunet taxes increased Akron's revenues. Operating expenditures had also been reduced substantially. A 25 percent salary reduction in 1933 along with layoffs substantially reduced the city's payroll cost. The city was able to apply roughly two-thirds of its receipts in 1934 and 1935 to meeting its large debt service burdens. Complete financial recovery was slowed by the failure of the city council to agree on a refinancing program, and the city was not out of default until March, 1936.

Grand Rapids, Michigan[16]

Grand Rapids was a city with a population of 168,592 in 1930 and was the foremost furniture-manufacturing center in the world at that time. During the early 1930's, its furniture plants were either inactive or operating with an estimated 55 percent of the normal workforce. The depression thus had a direct effect on property tax collections (66 percent of levies in 1933) and on the relief situation, creating a tremendous financial burden and contributing largely to the city's financial difficulties.

In spite of this relatively good operating performance (which was achieved by cutting controllable costs by one-third) and efforts to maintain its credit position, Grand Rapids met growing financial difficulties until the situation reached the breaking point. Mounting delinquencies in both general and special assessment taxes, increasing debt requirements a constantly growing relief burden, and finally bank closings, tying up all city cash, both general and sinking fund, forced the city to default in March 1933. By early 1934, the situation was improved by a refunding plan that alleivated the pressures of current maturities and by State assumption of most of the relief responsibilities. When the percentage of tax collections improved markedly in 1935, the city emerged from its financial difficulties in unusually good

shape and in a favorable current position as the following data illustrate:

Year	Receipts	Disbursements		
		Operations (in $ millions)	Debt Service	Relief
1929-30	$4.4	$2.8	$1.1	$ .1
1930-31	4.4	3.0	.6	.4
1931-32	4.4	2.8	.7	1.1
1932-33	4.7	2.1	.9	1.5
1933-34	3.1	1.9	.4	.7
1934-35	3.1	2.0	.5	.2

Asbury Park, New Jersey[17]

Asbury Park is a well-known summer resort. In the 1930's its permanent population numbered 15,000 while its summer population fluctuated between 50,000 and 100,000. Asbury Park's economy—a one-industry city subject to fluctuations of a luxury business—made it particularly vulnerable to the economic depression. Whereas the boom years immediately preceding 1929 produced a rapid expansion in real estate and beach enterprises, a severe depression in property values and a drastic decline in commercial revenue were experienced from 1929 through the mid-1930's. As a result, the amount of property taxes uncollected at the end of the year of levy exceeded 40 percent from 1930 through 1937, reaching a peak of 55 percent in 1933.

Coincident with the Depression, Asbury Park's auditorium and casino burned down. Although covered by insurance, the city could not obtain enough compensation to construct a new convention hall and casino. Between 1929 and 1931, the city therefore issued $3.6 million of temporary improvement notes to complete these projects. The city's financial difficulties were further aggravated by the discordant character of local politics. For example, the local electorate, cognizant of an impending financial crisis, adopted the council-manager form of government in 1933. Four different people held the office of city manager in the ensuing 18 months. The council members, however, were the same group that used short-term debt to finance the convention hall, casino, and some operating costs.

The city defaulted on part of the short-term indebtedness used to finance the convention hall and casino in April 1933. In the following two years, the city defaulted on practically all forms of its outstanding obligations, owing to the burdensome nature of the city's indebtedness ($847 per capita, which was 28 percent of estimated true value) and the decline in revenues. Economic recovery of Asbury Park was very slow—it was 1936 before the city experienced a year-to-year increase in receipts.

Asbury Park and its creditors remained at loggerheads throughout most of the crisis. A group of bondholders holding defaulted obligations sued the city and obtained a judgment in Federal District Court in early 1935 for $1.4 million and a writ of mandamus ordering an appropriation in the tax levy for one-tenth of this amount in each of the next 10 years. The State Municipal Finance Commission, whose supervision of Asbury Park's finances had been invoked by some security holders in March 1935, joined the city officials in a successful appeal from the writ of mandamus in July 1935. Several other refunding plans were advanced by the city and by each of two creditors' groups. There was, however, no real progress toward a comprehensive refinancing until December 1936. At that time, the State finance commission ordered the city to adopt a refinancing plan calling for full retirement in 33 years. The Federal District Court also ordered the city to place a sufficient amount to cover the refinancing plan in its budget. But, it was 1938 before the city and 85 percent of the creditors (the minimum required by State statute before a plan is legally binding) approved a slightly modified plan and it became operative.

INFERENCES FROM CASE STUDIES

Although the causes of default and the means of subsequent recovery varied among the individual cities, it is possible to distill common elements from these case studies. The Depression had a strong impact on all the defaulting cities. Most of the cities experienced substantial declines in taxable property values and suffered from having some of their funds or their taxpayer's funds tied up in failing banks. The Depression also adversely affected municipal budgets through sudden pressures for increased municipal expenditures caused by a rapid rise in the demand for relief expenditures and sudden declines in municipal revenues primarily caused by pronounced increases in tax delinquencies. The fact that nondefaulting municipalities faced the same pressures indicates,

however, that the Depression was not the sole causal factor.

Prior to the Depression, most of the case study cities became financially vulnerable by permitting debt service charges to become a large percentage of total receipts. They condoned operating deficits in prosperous years. They ignored demands for careful budgeting. The defaulting municipalities thus intensified the effects of the Depression by reducing controllable expenditures too slowly and by using short-term debt to finance large operating deficits.

Five of the eight case study cities reached agreements with their creditors with little if any State or Federal assistance or supervision. In the four cases in which economic recovery was fairly rapid—Detroit, Akron, Jackson, and Grand Rapids—a satisfactory solution was reached in a year or two. In Asheville, however, where indebtedness was particularly high, it was nearly a decade before an agreement was reached. State assistance and supervision was necessary in the larger default situations in Fall River, Asbury Park, and Fort Lee. This supervision appears to have been an important element in the eventual recoveries in Fall River and Asbury Park. In Fort Lee, the State approved the plan of composition reached under the Federal Municipal Bankruptcy Act of 1937. These and other remedies in the event of serious financial emergencies are evaluated in Chapter 5.

BORROWER CHARACTERISTICS ASSOCIATED WITH MUNICIPAL DEFAULTS

In addition to using aggregative data on defaults and individual case situations to pinpoint causes of municipal default, statistical techniques have been devised to identify the borrower characteristics that appear to determine whether or not a municipal unit will be forced to default on its indebtedness.

In order to apply statistical techniques the investigator must have a sample of municipal general obligations in which a fairly large number of defaults occurred. This requirement was last fulfilled by information on Michigan municipalities for the early 1930's maintained at the Municipal Advisory Council of Michigan. This sample is the only known data for which there is both an adequate amount of defaults and an adequate amount of quantitative information on the borrowing municipal units.

Borrower characteristics such as population and assessed valuation were related to defaults on municipal general obligations in two phases. In Phase I, a limited number of borrower characteristics by county areas for each of the 83 Michigan counties were examined. In Phase 2, 23 quantifiable borrower characteristics for 45 of the Michigan cities with populations over 8,000 in the 1930's were related to the payment performance of these cities.

County Data

Comparisons between default ratios and borrower characteristics indicate that the available borrower characteristics would probably not be very accurate measures of the counties' payment performances.*

For example, logic would suggest that the high-default-ratio counties would have high debt to population and high debt to assessed valuation ratios. The information does not support this expectation; 9 of the 12 high-default counties had debt to assessed valuation ratios below the median ratio of all 83 counties, while only half of the 12 low-default counties had debt to assessed valuation ratios below the median relationship. *(See Table 2-7.)* Data for other years are similarly ineffective in explaining payment performance in the 1930's.

Linear discriminant analysis and regression analysis were applied to analyze further the county-wide data. In the linear discriminant analysis, the 1930 populations, the 1930 debt to population ratios were used to discriminate between the 20 highest-default-ratio counties and the 20 lowest-default-ratio counties. The multiple linear regression equations were computed, using either the proportionate amount in default or the percentage of issues in default as the dependent variable. Total population, debt to valuation ratios, and debt to population ratios for each of the available years and population in 1930 were used as the inde-

*The number and dollar amount of debt issues and defaults for all municipal units in Michigan were aggregated by counties for Phase I. County-wide default ratios, by dollar amount and number of issues, were calculated for all the years in which data were available—1932, 1933, 1934, 1935, and 1937. The available quantitative borrower characteristics for county-wide areas were population in 1930 and both total indebtedness and total assessed valuation in 1930, 1932, 1933, 1934, 1935, and 1937.

Table 2-7

Default and Debt to Wealth Ratios for High-Default and Low-Default Counties

County	Percentage of Dollar Amount In Default 1933	Percentage of Issues in Default 1933	Debt to Population 1930	Debt to Assessed Valuation 1930
Otsego	45.0	50.0	10.71	.013
Charlevoix	44.6	7.0	58.31	.069
Cass	33.5	32.0	36.22	.031
Kalkaska	30.9	33.0	3.29	.004
Gladwin	19.9	47.0	13.61	.017
Oscoda	17.4	33.0	15.62	.012
Leelanau	16.9	44.0	15.32	.019
Macomb	16.4	65.0	195.81	.120
Mackinac	13.9	69.0	24.71	.029
Otonagon	12.9	42.0	17.55	.019
Wexford	12.9	23.0	15.02	.018
Ogeman	12.5	43.0	19.80	.025
Ingham	0.528	50.0	74.11	.043
Marquette	0.400	33.0	23.86	.018
Mecosta	0.341	10.0	27.84	.032
Schoolcraft	0.330	30.0	29.04	.030
Menominee	0.262	23.0	38.97	.041
Grand Traverse	0.175	43.0	38.46	.047
Bay	0.133	20.0	61.13	.056
Isabella	0.108	6.7	15.41	.015
Presque Isle	0.000	0.0	20.02	.025
Keweenaw	0.000	0.0	0.49	.0002
Lake	0.000	0.0	8.07	.011
Montmorency	0.000	0.0	1.78	.002
Median of 83 counties	2.88	33.00	31.16	0.030
High	45.00	77.39	216.27	0.227
Mean of 83 counties	6.19	33.02	43.89	0.0357
Low	0.00	0.00	0.49	0.0002
Mean for State of Michigan (weighted mean of 83 counties)	—	—	126.51	0.072

Source: Michigan Municipal Advisory Council

pendent variables in the various regression equations. The results of both of these statistical techniques—presented in Appendix A—show that there is no significant statistical relationship between county-wide figures on population, debt to valuation ratios, and debt to population ratios and defaults in county-wide areas.

The results of all the methods used to identify quantitative borrower characteristics associated with default ratios in Michigan counties indicate that the available borrower characteristics were not the key explanatory variables for default ratios in Michigan counties. The county may not be the appropriate economic region for analyzing the quantitative characteristics associated with defaults. To probe more deeply for explanations, an analysis was made of the relationships between larger groups of

quantitative borrower characteristics and debt payment difficulties in Michigan cities.*

City Data

Twenty-eight of the 45 Michigan cities studied had some debt in default during the 1927-37 period. At the end of 1933, when all the 28 units were in default on some of their indebtedness and when the amount in default was highest, the default in the 28 cities was $6.6 million compared to $113 million of total debt outstanding for the 45 cities.

The borrower characteristics used in the analysis fall into various categories. (*See Table 2-8.*) Aggregative size characteristics of these Michigan cities are represented in the first seven variables. Variables 8 and 9 are rough measures of relative wealth and growth of the cities. Variables 10 through 17 depict measures of the relative debt burden and its growth. The tax burden is represented by variables 18, 19, and 20. Variable 21 indicates how well the cities were able to collect their taxes in a depression year. Variable 22 and 23 show the magnitude of notes outstanding.** The 1922 figures were used to examine the effects of growth in debt, population, and tax levies and also to help detect whether some of the problem of the 1930's could have been predicted from 1922 data.

Linear discriminant analysis and regression analysis, again, were used to analyze the relationship between the 23 variables and default in the 45 Michigan cities. The analysis sought first to identify individual borrower characteristics that were independently associated with the payment performance of the cities, and second, to try to develop a model of borrower characteristics associated with the payment performance of the cities.

The ratio of debt to assessed property value in 1932, the percentage of current taxes delinquent in 1932, and the amount of notes outstanding per capita in 1932 significantly discriminated between the defaulting and nondefaulting groups and were significantly correlated with the default ratio. Six additional characteristics—log debt outstanding in 1932, the growth of population from 1922 to 1932, per capita debt in 1922, ratio of debt to taxes levied in 1932, tax levy per $1,000 assessed valuation in 1932, and growth of taxes from 1922 to 1932—either significantly discriminated between the defaulting and nondefaulting groups or were significantly correlated with the default ratio.

Table 2-8

Borrower Characteristics Related to Payment Performance of 45 Michigan Cities

X1 —Amount of debt outstanding in 1922
X2 —Amount of debt outstanding in 1932
X3 —Log debt outstanding in 1932
X4 —Population in 1932
X5 —Log population in 1932
X6 —Total assessed property values in 1932
X7 —Amount of property taxes levied in 1932
X8 —Assessed property value per capita in 1932
X9 —Growth of population from 1922 to 1932
X10—Growth of debt from 1922 to 1932
X11—Growth of debt relative to population growth
X12—Per capita debt in 1922
X13—Per capita debt in 1932
X14—Debt/assessed property values in 1932
X15—Debt/taxes levied in 1922
X16—Debt/taxes levied in 1932
X17—Growth of taxes relative to growth in debt
X18—Tax levy per $1,000 assessed value in 1932
X19—Tax levy per capita in 1932
X20—Growth of taxes from 1922 to 1932
X21—Percentage of current taxes delinquent in 1932
X22—Amount of notes outstanding in 1932
X23—Notes outstanding per capita in 1932

Sources: The 1932 figures were for the 1932 fiscal year or as of the end of that year and were obtained from the Municipal Advisory Council of Michigan. The 1922 figures were obtained from the 1922 U.S. Census.

The independent relationships between the 23 borrower characteristics and the payment performance of the 45 cities are presented in Appendix A.

Among the seven aggregative size characteristics, the log of debt outstanding in 1932 was significantly related to payment of the municipal units.

Among the relative wealth and growth characteristics, the growth of population from 1922 to 1932 came close to being significantly related to payment performance. Amont the characteristics measuring the relative debt burden and its growth, per capita debt in 1922, ratio of debt to assessed valuation in 1932, and ratio of debt

*The statistical relationships between selected quantitative borrower characteristics and defaults for 45 of the 49 Michigan cities with populations over 8,000 in 1930 were analyzed. Detroit, which was treated as a special case study, and Dearborn, Grosse Point, and Lincoln Park, for which there was incomplete quantitative information, were excluded from the analysis.

**Unfortunately, quantitative information was lacking on several measures that the preceding case studies had identified as potential causal factors including: (1) the level or growth of city expenditures; (2) the current operating surplus or deficit; and (3) the quality of the city's financial managers and their budgeting and reporting practices. Variables 22 and 23 might be partial proxies for the latter two characteristics.

to taxes levied in 1932 were significantly related to payment performance.

None of the tax burden characteristics were significantly different between the defaulting and nondefaulting cities; however, each was fairly strongly correlated with the proportion of debt in default. Examination of individual city data revealed that the primary explanation was that three cities with very high tax burden characteristics also had very high default ratios. Some cities with high tax burden characteristics, nonetheless, met their debt obligations throughout the period. The phenomenon may indicate these characteristics measure willingness to be taxed in some situations. The percentage of current taxes delinquent in 1932 and the notes outstanding per capita in 1932 were both significant indicators of payment performance. The application of statistical analysis yields an explanatory model consisting of five characteristics. A verbal profile of this model will demonstrate that the results based on quantitative borrower characteristics are similar to what one would predict from the case studies or conceptual reasoning. The typical defaulting city had had rising service demands in the decade preceding its financial problems (population growth from 1922 to 1932) and by 1932 faced a high relative debt burden (ratio of debt to assessed property values in 1932). When tax delinquencies caused revenue declines (percent of current taxes delinquent in 1932), possibly because of a heavy tax burden (tax levy per $1,000 of assessed value in 1932), many of the defaulting cities used questionable financial practices such as short-term borrowing (notes outstanding per capita in 1932) to try to overcome their operating deficits. In many cases, the pressures of these forces were too great to overcome and the city defaulted. The higher most of these characteristics were, the higher the proportionate amount in default tended to be. The one possible exception was the relative tax levy figures. In some cases, a high tax levy *without* high tax delinquencies seemed to indicate an unusually high willingness to pay.

CONCLUSIONS ABOUT PAST FINANCIAL EMERGENCIES

On the basis of a three-pronged analysis of available data particularly for the 1929 depression period, it is possible to identify the major sources of municipal financial emergencies of the past. The causes may be classified into environmental (out of the basic control of local officials) and internal factors.

The environmental factors contributing to municipal defaults in the 1930's stemmed directly from economic depression itself, and included:

1. Significant declines in taxable income and wealth.
2. Numerous bank failures.
3. Sudden pressures for increased municipal expenditures caused by a rapid rise in the demand for relief expenditures.
4. Sudden declines in municipal revenues primarily caused by pronounced increases in tax delinquencies.

These factors operated with greatest intensity in municipal units heavily dependent on one industry, such as automobiles or textiles.

The internal factors contributing to municipal defaults in the 1930's centered on growth and development that made the municipal unit vulnerable to unexpectedly higher expenditures. For example, during the 1920's many municipalities:

1. Ignored real estate overdevelopment.
2. Allowed expenditure-revenue imbalances in prosperous years.
3. Permitted fixed debt service charges to become an increasing proportion of expenditures.
4. Ignored demands for better budgeting and reporting.

Many defaulting municipalities then intensified the impact of the environmental factors by:

1. Being slow to reduce controllable expenditures.
2. Using short-term debt to finance large operating deficits.
3. Continuing to eschew sound budgeting techniques.

Through most of the depression period of the 1930's, Federal assistance and State assistance to cities in financial emergency was minimal until after default had occurred. Even after a municipality defaulted, the Federal government and many States accepted only limited responsibility for the fate of the troubled unit.

CHANGES IN THE PROBABILITY AND IMPACT OF A SEVERE ECONOMIC DECLINE

The close association of environmental and internal factors that led to municipal defaults in the 1930's raise several questions about potential financial emergencies in cities at the present time. What is the probability of a serious economic decline and what would be the impact of such a decline on municipal finance? What is the nature of the financial environment that cities face at the present time? What is the current status of cities' financial conditions and management practices? The first of these questions and policy suggestions related to it are considered below; the last two questions are considered in greater detail in the following chapter.

Questions naturally arise concerning the probability of an economic decline occurring in the future and its impact on municipal finance if one should occur. Clearly, economic depression was a major contributing factor to municipal defaults in the 1930's. The Depression led to significant declines in taxable income and wealth, large numbers of bank failures, sudden pressures for increased municipal expenditures for relief purposes, and sudden declines in municipal revenues brought about primarily by property tax delinquency.

The probability of another economic depression of the 1929 variety has been lowered. The Federal government is better equipped now to stabilize the economy. It has an arsenal of monetary and fiscal policy techniques to deal with economic upswings and downturns. Structural changes in the economy itself such as the greater role of services and government expenditures have perhaps made the nation less susceptible to economic catastrophe. The probability of numerous banking failures, even if there were a depression, has been lowered by the creation of the Federal Deposit Insurance Corporation and other bank regulatory and structural changes. Furthermore, the potential expenditure impact of a depression on most municipal units has been lowered considerably by a shift in much of the responsibility for financing the welfare function to the Federal and State governments.*

On the revenue side, city defenses against the impact of economic depression are less formidable. If another depression caused a decline in taxable income and wealth, city revenues would decline markedly for two reasons. First, the increase in the proportion of local tax receipts that are based on cyclically vulnerable income and consumption bases makes local revenues more vulnerable to economic declines than they were in the 1930's. Second, massive property tax delinquency such as occurred in the 1930's, would be as devastating to local treasuries today as it was during the depression.

Policy Inferences

Although the probability of a serious economic decline has been lowered since the 1930's, further safeguards could be fashioned to protect the fiscal integrity of local governments. To keep local governments from contributing to an economic decline and to protect and maintain their financial position it is reasonable to suggest that:

- In the event of a national economic decline severe enough to reduce property tax collections substantially below historically normal levels, the Federal government make available to local governments
lected taxes; and
- The Federal government and the States relieve local governments of most of their remaining financial responsibilities associated with welfare expenditures.

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*This shift in responsibility for welfare is far from complete and constitutes a significant burden in some individual cities. A recent report, "Government Services in Major Metropolitan Areas" (New York: The Conference Board, 1972), concluded that in the United States as a whole the Federal government financed 58 percent of public welfare aid; the States, 30 percent; and local governments, 12 percent. In 28 out of 50 States, local governments provided less than 10 percent of the financing for public aid. In 12 States, they provided between 10 and 20 percent. They provided more than 20 percent in only 10 States and more than 30 percent in only 4 States —Alaska (49.7%), Indiana (36.9%), Minnesota (33.5%) and New Hampshire (31.1%).

Footnotes

[1]A detailed description of many of the defaults and repudiations by Southern municipalities can be found in Albert M. Hillhouse, *Municipal Bonds* (Englewood Cliffs, N.J., Prentice-Hall, Inc., 1936) pp. 47-62.

[2]Hillhouse, *op. cit.*, pp. 143-99.

[3]Hillhouse, *op. cit.*, pp. 67-85.

[4]Hillhouse, *op. cit.*, pp. 88-105.

[5]Hillhouse, *op. cit.*, pp. 106-42.

[6]New Jersey *Commission to Investigate Municipal* Taxation and Expenditures, *Municipal and County Data.* (Trenton: State of New Jersey, 1931).

[7]Frederick L. Bird, "Cities and Their Debt Burden," *National Municipal Review*, XXV, No. 1, January 1936, pp. 12-19.

[8]U.S. Bureau of the Census, *Historical Statistics on State and Local* Government Finances, 1902-1953, Special Studies Number 38, 1955, pp. 17-18. Principal due was estimated by taking the difference between long-term debt issued and net change in long-term debt for the year. This figure is conservative because some debt was issued to replace outstanding debt.

[9]George H. Hempel, The *Postwar Quality of State and Local Debt*, NBER General Series, No. 54 (New York, Columbia University Press, 1971), pp. 26-39.

[10]The primary sources of information for this case are *Reports of the Fall River Finance Commission*, 1932-41 (Massachusetts: Public Document No. 151, 1941), and William Blodgett, *Causes of the Financial Breakdown of Fall River* (Connecticut: Taxation Document No. 255, 1933).

[11]The primary sources of information for this case are Dun and Bradstreet's reports on the city of Detroit in the 1930's, and Egbert S. Wengert, *Financial Problems of the City of Detroit in the Depression* (Detroit: Bureau of Governmental Research, 1939). Most of the figures are from Richard A. Ware, ed., *Accumulated Social and Economic Statistics for Detroit* (Detroit: Bureau of Governmental Research, 1942).

[12]The primary sources of information for this case are Dun and Bradstreet's reports on the city of Asheville in the 1930's.

[13]The primary sources of information for this case are Dun and Bradstreet's reports of the city of Jackson in the 1930's.

[14]The primary source of information for the case is "Unique Tale of Municipal Default and Its Remedy," *The Daily Bond Buyer*, CLXXII, No. 20765, January 1960.

[15]The primary sources of information for this care are Dun andBradstreet's reports on the city of Akron in the 1930's.

[16]The primary sources of information for this case are Dun and Bradstreet's reports on the city of Grand Rapids in the late 1930's.

Chapter 3

CURRENT FINANCIAL CONDITIONS IN CITIES

Although most cities have financial problems their magnitude and specific nature are not widely known. Societal conditions and the state of the national economy exert perhaps the most pervasive affects on the financial condition of the Nation's cities. The impact of these factors varies, however, with size, location and other characteristics of the city. This chapter analyzes the effects of general economic and social conditions on city finances, examines in detail the recent financial emergency experienced in each of eight selected cities, and finally reviews the finances of all major cities in the country.

GENERAL FISCAL PRESSURES ON CITIES

Current financial pressures on cities stem from the increasing demands for more services, inflationary effects that are intensified by the labor-intensive nature of the services demanded, the impact of external forces chiefly related to labor relations, and the demise of the balanced city with a resultant rise in social and economic disparities among jurisdictions. Although the impact of these factors varies among individual cities, their influence is felt most acutely in the large American cities. In these jurisdictions fiscal pressure is accentuated wherever "traditional" revenue sources fail to grow as rapidly as expenditures. In some large cities, Federal revenue sharing, while immediately helpful, may not be sufficient to reverse the long-term trend toward imbalance between expenditures and revenues.

Pressure for Expansion of City Services

Virtually all cities confront pressure to expand city services. Data on public employment for the decade of the 1960's reflect the trend. From 1960 to 1970, State and local employment rose 59 percent, from 6.4 million to 10.1 million employees. In contrast, Federal civilian employment during the same period increased from 2.5 million to 2.9 million.[1] This relatively rapid increase continued during the 1970 recessionary period when State and local employment was

the only major economic sector to expand and during the 1971-72 recovery period when State and local employment recorded the fastest rate of expansion for any category.* Given the emphasis of environmental protection, police protection, employment programs, health care, and improved housing in central cities (all of which are primarily locally administered programs), the trend toward greater State and local employment shows little chance of slowing.

Data on the growth of municipal capital expenditures foreshadow further pressure for expanded city services. *(See Table 3-1.)* Replacement of worn-out facilities, accounts for some capital outlay but by far the largest portion of capital spending reflects new facilities for improved public services that, in many cases such as water-pollution control, had not previously been provided.

Municipal governments feel the effect of increased capital outlays in two ways. First, new capital facilities need an increased number of

Table 3-1
Capital Outlays of Local Governments 1959-1971

Fiscal Year	Capital Outlays ($ millions)
1959	8,292
1960	8,497
1961	9,226
1962	9,505
1963	9,836
1964-65	11,360
1965-66	12,137
1966-67	12,962
1967-68	13,521
1968-69	15,539
1969-70	16,355
1970-71 (est.)	18,404

Source: U.S. Bureau of the Census, *Governmental Finances*, annual copies from 1959 through 1970-71 (Washington, D.C.: U.S. Government Printing Office, 1960-72).

personnel for operations and maintenance. Unlike capital expenditures in private industry, a minor portion of municipal capital expenditures are in the form of labor-saving improvements. Even where labor saving devices are feasible such as in water and sewage treatment plants, the additional complexity of the equipment and the maintenance required to meet new pollution

Table 3-2
Selected Features of Local Indebtedness, 1959-1971 (in $ millions)

Fiscal Year	Debt Issued	Debt Retired	Interest on General Obligations	Debt Service Charges
1959	$ 6,058	$2,479	$1,287	$3,766
1960	5,673	2,680	1,492	4,172
1961	5,876	2,870	1,641	4,511
1962	6,326	3,154	1,797	4,951
1963	7,861	3,629	1,932	5,561
1964-65	8,227	3,810	2,191	6,001
1965-66	8,532	4,274	2,374	6,648
1966-67	7,657	4,467	2,608	7,075
1967-68	9,352	4,431	2,761	7,192
1968-69	10,594	4,933	3,128	8,061
1969-70	8,945	5,081	3,624	8,705
1970-71 (est.)	12,011	5,656	4,142	9,798

Source: U.S. Bureau of the Census, *Governmental Finances*, annual copies from 1959 through 1970-71 (Washington, D.C.: U.S. Government Printing Office, 1960-72).

control standards almost inevitably necessitate a net increase in employment. Second, new capital facilities usually mean increased municipal debt service costs. Both the amount of debt retired annually and interest payments have more than doubled over the last decade. *(See Table 3-2.)* The rapid rise in the amount of local indebtedness issued indicates that debt service costs will continue to expand in future years.

Pressure of Inflation

Cities are particularly vulnerable to inflation. During recent years, the price deflator used to convert purchases of goods and services to a common base for year-to-year comparisons has risen half again as fast for the State and local government sector as it has for the economy as a whole.* *(See Table 3-3.)* Another way of stating the impact of inflation on cities is to note that a city with a $100 million budget in 1963 would have had to spend $2.7 million more in 1964 to maintain its same level of services; a city with a $100 million budget base in 1970 would have had to pay $6.6 million more in 1971 to maintain its 1970 service level.

The basic reason that prices rise more rapidly

*Based on seasonally adjusted nonfarm payroll employment data of the U.S. Department of Labor.

*The implicit price deflator series used by the Department of Commerce in its series on Gross National Product and National Income are derived from a comparison of real and current dollar data for various economic segments, including State and local governments. Analysis of the deflators used to arrive at real output data for the government segments indicates the impact of price changes upon the individual segments.

Table 3-3
Implicit Price Deflators, 1963-1971
(1958=100)

Year	State and Local Purchases Of Goods and Services: Index	Percent Change From Preceding Year	Gross National Product: Index	Percent Change From Preceding Year
1963	116.3		107.2	
1964	119.5	2.7	108.8	1.5
1965	123.4	3.3	110.9	1.9
1966	129.0	4.5	113.9	2.7
1967	133.8	3.7	117.3	3.0
1968	144.7	8.1	122.3	4.3
1969	153.7	6.2	128.1	4.7
1970	165.1	7.3	135.3	5.6
1971	176.0	6.6	141.6	4.7

Source: Compiled from information in various issues of U.S. Department of Commerce, *Survey of Current Business* (Washington, D.C.: U.S. Government Printing Office, 1964-72).

for State and local governments is that public services are labor intensive. Labor-related costs, including both salary costs and provisions for fringe benefits constitute 70 to 80 percent of most city budgets. Productivity gains are difficult to achieve where labor is the main factor of production.

Pressures of External Forces

Because of the high labor component in city expenditures, the forces that influence labor costs throughout the economy exert extraordinary pressure on city finances. For example, salary and wage expectations of city employees are elevated by Federal and private employee salary increases. City outlays are pushed upward by rivalry among unions and organizations representing city employees, rivalry between functional city employee groups, emphasis on fringe benefits in addition to wages in collective bargaining, and increasing reliance on arbitration to settle wage disputes.

These external forces working in concert, may generate tremendous leverage on city costs in the long-run while remaining hidden in the short-run. For example, the combination of wage expectations and sharp bargaining among rival unions and functional groupings has often resulted in wage packages with fringe benefits that are prohibitively expensive to the cities. In their labor negotiations, some municipalities have not yet adopted the practice of fully costing out fringe benefits in dollars-and-cents terms thereby temporarily hiding the full cost of a labor settlement. In some cases, the failure to cost out a wage settlement is intentional. City officials and, for that matter, union officials may want to minimize the immediate cost implications for the city. Under the circumstances, city officials take credit with taxpayers for a low dollars-and-cents settlement and union officials take credit for improvement in the workers' benefits package on an item-by-item basis that their membership understands. The net result from the standpoint of the city is an ever-increasing cost in terms of retirement payments, health and hospitalization payments, and decreasing productivity from employees because of longer vacations, more holidays, and generally shortened work weeks.*

Improvements in pension benefits have particularly insidious effects on city cost levels because these improvements can be passed forward many years into the future. There is evidence to indicate that this is occurring in many cities. Even in cities that fund future pension costs currently, the costs of increased benefits become camouflaged by actuarial terminology and are not generally identified as a direct cost of labor negotiations.**

To avoid the trauma of cutting off vital services, cities and other local government units are making greater use of arbitration as a means of settling labor disputes thereby further complicating the chore of financing government. Arbitration removes from the locally elected public officials the responsibility for determining the allocation of local resources. Arbitrators assume responsibility for resource allocation and share responsibility for determining the level of revenues that must be raised within the community.***It is frequently difficult to reach an

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*E. S. Savas in his article, "Municipal Monopoly," *Harper's Magazine*, December 1971, cites an example on this phenomenon in New York City where ". . . between 1940 and 1965 the number of policemen in New York City increased by 50 percent (from 16,000 to 24,000) but the total number of hours worked by the entire force in 1965 was actually less than in 1940. The increase in manpower was completely eaten up by a shorter work week, a longer lunch break, more vacation days, more holidays, and more sick leave. By comparison during the same period, the length of the average work week throughout the U.S. declined by eight percent."

**The long-run impact of fringe benefits on city costs is demonstrated in Detroit where annual police and fire pension costs now reportedly exceed 50 percent of the police and fire payroll costs.

***For example, Michigan Laws Annotated 423.239 provide that the arbitrators will use decisional standards that include "The interests and welfare of the public and the financial ability of the unit of government to meet those costs.

accommodation between the powers of local elected officials and appointed arbitrators without creating financial pressures.

Pressures of Metropolitan Socio-economic Disparities

The fragmentation of government in metropolitan America has created have-and have-not communities in terms of ability to support services and given rise to a persistent fiscal problem. *(See Appendix B.)*

Most suburban areas are growing faster than central cities in population, taxable wealth, and personal income. Central cities meanwhile are increasingly characterized by declining population, increasing concentration of poor, nonwhite and elderly, obsolescent housing, and above-average rates of crime. The fiscal implications for central cities are high and rising demands for expenditures, especially for nonschool purposes and related to the poor, nonwhite, and elderly. These demands require continually increasing tax revenues from bases that are being undermined by the flight of affluent citizens to the suburbs.

Impact of Pressures on Individual Cities

Expenditure pressures on 29 of the largest cities in the United States have been particularly intense. Only 2 of these 29 cities—Cleveland and Pittsburgh—had an annual percentage growth in general fund expenditures below the 6.6 percent increase in the implicit price deflator for all State and local governments. *(See Table 3-4.)* Between the two most recent years, 20 of the 29 cities had an annual percentage increase in general fund expenditures that exceeded 10 percent. Clearly service demands, inflation, and external forces, plus special central city problems, impact heavily on the Nation's core cities.

Table 3-4

Annual Percentage Change in General Fund Expenses Between Two Most Recent Available Years, 29 Selected Large Cities

City	Change
Boston	21.2%
Phoenix	19.9
San Francisco	18.6
Columbus	17.7
Seattle	16.9
Chicago	15.8
Milwaukee	15.7
Atlanta	15.0
Houston	14.9
Philadelphia	14.8
Jacksonville	14.6
Detroit	14.5
St. Louis	13.9
New York	13.3
Los Angeles	12.0
New Orleans	11.7
Denver	11.6
Kansas City	11.5
Memphis	11.3
Cincinnati	10.8
Minneapolis	9.7
San Diego	9.7
Buffalo	8.9
Baltimore	8.2
Nashville	7.8
San Antonio	7.2
Dallas	6.6
Pittsburgh	1.5
Cleveland	—10.2

Source: Compiled from published financial reports of cities. (See further note at the end of this chapter regarding the reports that were used for this and subsequent tables compiled from these sources.)

Problems in Raising Revenues

When city expenditures rise, revenues must also rise. The components of city revenues have changed during the past decade. *(See Table 3-5.)* While financial aid from higher levels of government and local property taxes provided between 75 and 80 percent of local revenues throughout the period, a major change has occurred in the proportion attributable to each of these sources. In the late 1950's, property taxes accounted for nearly 50 percent of general revenues, while fiscal aid comprised less than 30 percent. By the 1970-71 fiscal year, the proportion of general revenue from property taxes had fallen to 40 percent, and fiscal aid had climbed to 37 percent. The proportions of general revenue from other sources, such as sales taxes, income taxes, and charges for services, have remained relatively constant over the period.

Three factors account for the decline in the relative role of the property tax. Growth in the property tax base—assessed valuation—lags behind growth in expenditures. The public considers the property tax the worst—most unfair—major tax and rebuffs attempts to raise it. Higher levels of government have rapidly in-

creased financial aid for programs administered solely or in cooperation with local units of government. Edward Banfield has suggested that cities have gotten fiscal aid because the taxpayers of the city (1) would rather go without the services than pay for them themselves, or (2) would prefer to have some other taxpayers pay for them although they could pay for the services themselves.[2] For obvious reasons, it appears that the property tax will continue to decline relatively as a source of local revenue.

Just when their needs for additional revenues seem to be rising most rapidly, erosion of the revenue-raising capacity has occurred in some central cities according to an analysis of fiscal problems of the cities:

> . . . with the movement of middle- and upper middle-income families to the suburbs and the recent suburbanization of industry, per capita property values—and with them, the property tax base—have grown considerably faster than those in core areas . . . In a few older cities, such as Newark and Trenton, New Jersey, the aggregate value of taxable property has actually begun to decline . . . The suburbanization of higher income families, the growing use of the automobile in shopping, and the proliferation of large shopping malls used by central city residents have caused the retail sales tax base in the suburbs to grow far faster than in the city.

Income taxes do not play a major role in local finance because the states and the federal government have largely preempted this form of taxation. Even here, however, the cities that tax the incomes of their residents face a growing disadvantage vis-a-vis the suburbs.[3]

The solution to the maldistribution of the local revenue base has not yet been found. Suggestions that commuters be charged for services they receive from the city have resulted in local sales and payroll taxes that affect residents as well as nonresidents. Suggestions that local government boundary lines be redrawn so that everyone in a metropolitan area would be taxed on some basis have met with apathy or opposition in most parts of the country.

The prospects of finding a local solution to the local financial problem was recently assessed as follows:

> . . . whether or not local governments are involved in impasse procedures [in their labor relations] their finances will be in critical condition. They will surely be forced to seek additional revenue hurriedly and under strong pressure from unions, as well as from other claimants. But the supplementary revenue sources they find may be inadequate expedients, and the pressures are not going to lessen. There is no satisfactory solution short of heroic local tax reform plus effective plans to share more state revenue

Table 3-5
Selected General Revenue Items as a Percentage of Local General Revenues, 1959-1971

		Percentage Distribution*					
Year	General Revenues ($ billions)	Fiscal Aid[a]	Property Taxes	Sales Taxes[b]	Income Taxes[c]	Current Charges[d]	Other Revenues[e]
1959	$29.5	29.7%	48.9%	3.9%	.8%	10.5%	6.3%
1960	32.9	30.3	48.1	4.1	.8	10.8	6.0
1961	35.9	30.4	48.4	4.0	.7	10.4	6.1
1962	38.4	30.4	48.0	3.8	.8	10.6	6.3
1963	41.2	30.8	47.1	3.8	.8	11.3	6.3
1964-65	47.5	31.9	45.9	4.3	.9	11.1	5.9
1965-66	53.2	33.4	44.8	3.8	.9	10.8	6.2
1966-67	58.7	34.7	43.3	3.4	1.6	10.8	6.3
1967-68	63.2	35.3	42.5	3.1	1.7	10.9	6.6
1968-69	71.9	36.3	41.3	3.4	1.9	10.9	6.2
1969-70	80.9	36.5	40.7	3.8	2.0	10.8	6.1
1970-71	92.0	37.5	39.9	4.0	1.9	10.7	6.0

*May not add to 100% due to rounding
[a]Includes both Federal and State aid to local governments
[b]Includes general and specific taxes and gross receipts taxes
[c]Includes business and personal income taxes
[d]Includes charges for education, hospitals, sewerage, parking, etc.
[e]Includes miscellaneous taxes, special assessments, interest income, etc.
Source: U.S. Bureau of the Census, Governmental Finances, annual copies from 1959 through 1970-71 (Washington, D.C.: U.S. Government Printing Office, 1960-72).

and particularly more federal revenue with the cities and counties. Both steps face formidable political and technical obstacles.[4]

Effect of Federal Revenue Sharing

Federal revenue sharing in the State and Local Fiscal Assistance Act of 1972 has been heralded as the means of relieving the financial problems of cities. Fiscal aid through revenue sharing will help to counteract the expenditure-revenue imbalance; however, there is a danger in overselling the impact of this additional aid. Revenue sharing represents from 8 to 15 percent of general expenditures in most cities. *(See Table 3-6.)* Although this seems an impressive addition to revenues, it is important to remember that the annual increase in general fund expenditures exceeded 10 percent in 19 of 28 large cities. *(See Table 3-4.)* General revenue sharing will not, in fact, cover the most recent rate of annual increase in expenditures for 12 of these 28 cities.

FINANCIAL CONDITIONS OF INDIVIDUAL CITIES

By examining in detail the financial operations of individual cities alleged to be in precarious financial condition, it may be possible to discern the signals of impending financial trouble.

Each city exists relatively independently of every other city in the country. Each has its own budgeting and accounting systems, frequently operates within a unique legal framework, and has its own service demands and resources for meeting such demands. To understand its financial condition, it is necessary to analyze the two key source documents—annual financial reports and budgets—that sum up every city's financial operations.*

Selection of Cities

A national survey was conducted to locate cities that have recently had severe financial problems and especially any cities that have had a recent financial emergency.*

To narrow the potential number of cities for review, it was decided to select those experiencing financial conditions relevant to a study of the detection, prevention, and treatment of financial emergencies, whether or not the city had a financial emergency. The initial selection process resulted in identifying 13 cities for in-depth analysis: Philadelphia, Pennsylvania; Detroit, Michigan; Cleveland, Ohio; Newark, New Jersey; Oakland, California; Somerville, Massachusetts; New Britain, Connecticut; East St. Louis, Illinois; Hamtramck, Michigan; Newburgh, New York; East Haven, Connecticut; Darby, Pennsylvania; and Ranger, Texas. Further study and visits to each city except Ranger, Texas, reduced the original list to eight.**

Problems of these eight cities are discussed below.

Hamtramck, Michigan (population 27,000)

Hamtramck, Michigan completely surrounded by the city of Detroit, is a good example of a city with a recent financial emergency. In the spring of 1970, the city of Hamtramck failed to pay its employees, its pensioners, and its creditors because it had literally run out of money.

The facts of Hamtramck's situation are as follows: The city had a budget system and kept its books on an essentially cash-accounting basis. Payrolls continued from year to year on the basis of the previous year's experience, and bills were paid as cash became available. If cash receipts were insufficient to pay for the remaining obligations near the end of the fiscal year, attempts were made to obtain additional cash. If the attempts proved unsuccessful, bills or other obligations were deferred until the following year.

Various methods were used to obtain cash. For example, from 1965 until 1970, the police

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*Although the Census Bureau collects and makes available information about individual cities, it uses a standard reporting format, combining and rearranging information to give it meaning for national comparative purposes and in so doing necessarily sacrifices much of the detail required for evaluating the financial condition of individual cities.

*The survey covered each State municipal league, at least one State official responsible for local affairs in each State, the three major New York bond-rating agencies, Federal officials involved in local grant programs, and others knowledgeable about financial problems of cities.

**Philadelphia, Detroit, Oakland, and Newburgh were adjudged not to have had as significant a crisis as the other cities although some aspects of the conditions in Detroit and Philadelphia will be considered. Ranger, Texas, was dropped because of its size.

Table 3-6
Revenue-sharing Allocations Compared with City General Fund Operating Expenditures, 28 Selected Large Cities
($ millions)

	General Fund Expenditures	One Year Increase in Expenditures	Revenue Sharing Allocation	Revenue Sharing As Percentage of Expenditures
New Orleans	$ 67.7	$ 7.1	$ 14.7	21.7
Chicago	382.0	52.1	69.5	18.2
Kansas City	61.0	6.3	10.2	16.7
Seattle	62.3	9.0	9.9	15.9
San Antonio	49.2	3.3	7.8	15.8
Nashville	41.5	3.0	6.4	15.4
Cincinnati	56.4	5.5	8.5	15.1
Cleveland	95.0	—10.8	14.1	14.8
Denver	83.6	8.7	12.2	14.6
Pittsburgh	87.0	1.3	11.7	13.4
Phoenix	69.8	11.6	9.3	13.3
Memphis	79.7	8.1	9.8	12.3
Los Angeles	294.0	31.5	35.4	12.0
Minneapolis	40.8	3.6	4.8	11.8
Columbus	49.9	7.5	5.7	11.4
Dallas	90.1	5.6	9.7	10.8
Houston	129.7	16.8	14.0	10.8
San Diego	63.6	5.6	6.5	10.2
St. Louis	124.9	15.2	12.7	10.2
Buffalo	79.7	6.5	7.3	9.2
Milwaukee	130.3	17.7	11.2	8.6
Philadelphia	526.7	67.8	43.8	8.3
Detroit	440.7	55.8	36.5	8.3
Atlanta	60.5	7.9	4.6	7.6
Baltimore[a]	390.7	29.6	23.9	6.1
Boston[a]	315.6	55.2	17.8	5.6
San Francisco[a]	492.4	77.2	19.2	3.9
New York[a]	7,772.0	912.4	247.5	3.2

[a]General fund expenditures for these cities include substantial amounts for education and welfare that were either handled as a separate fund or were not major city responsibilities for the other cities studies.

Sources: Expenditure data compiled from most recently available published financial reports of cities. Revenue sharing allocations based on the Joint Committee on Internal Revenue Taxation, "Supplemental Report Showing Distribution of Funds as Agreed to by Congress" under the State and Local Fiscal Assistance Act of 1972.

and fire employees pension contributions, funds paid by the employees to be held in trust, were used for general city purposes. Real estate taxes were collected in advance of the fiscal year in which they were due. In 1968, $200,000 in taxes due in 1969 were collected and and applied against 1968 disbursement. In 1969, $367,000 payable in 1970 was collected to be used against 1969 disbursements.

Hamtramck tried to conserve cash by deferring bills. For example, disbursements for street lighting averaged $83,000 a year in 1962, 1963, and 1964; declined to $56,000 in 1967; to $42,000 in 1968; and to only $7,000 in 1969. By simply not paying for street lighting, the city was able to improve its cash position in 1969 by at least $75,000.

Based on an accurate audit of the city's finances on an accrual basis, the accumulated general fund deficit of the city of Hamtramck on June 30, 1970 was $2,449,418, or nearly 44 percent of its total expenditures of $5.6 million. The magnitude of the accumulated deficit made it increasingly difficult in the spring of 1970 for the city to avoid running out of cash. Unpaid bills were accumulating, and local corporate taxpayers were beginning to question the wisdom of advance tax payments to the city. The city applied to the Michigan Municipal Finance Commission for approval of the issuance of $400,000 of tax anticipation notes payable from the following year's tax receipts.* The commis-

*M.S.A. 5.3188 (1) et. seq., directs the commission composed of the State treasurer, attorney general, auditor general, and superintendent of public instruction to "protect the credit of the State and its municipalities" in various actions, including giving permission for any borrowing by local units. The law authorizes the hiring of staff and provides wide ranging powers for the commission to issue

sion became concerned over the need for such a relatively large amount of borrowing to be repaid from a future year's revenues, and it began an investigation into the city's overall financial condition.

On March 18, 1970, while the commission was still considering approval of the tax anticipation note, the city ran out of cash and was unable to meet a $111,000 payroll then due. Because it had neither cash nor the ability to obtain cash, this payroll was not paid, and the city had reached a financial emergency. On March 24, 1970, the Michigan Finance Commission authorized the issuance of the $400,000 tax anticipation notes so that the city might continue to function.* In accordance with the provisions of State law, the city was required to prepare a balanced 1971 budget to demonstrate its intention to pay off its accumulated deficit.

Although the commission was unaware of the extent of Hamtramck's financial emergency in March 1970, it took several actions designed to restore the city's solvency. The commission gave the city 90 days to present plans to replace its self-insured workman's compensation coverage by insured carrier coverage and to repay police and fire pension contributions that had been used by the general fund since 1965. Within six months, Hamtramck was to develop a plan for solving the unfunded police and fire retirement-system problem and it was also required to refrain from obtaining any advanced payments or bank loans of any type. The commission issued its orders to the city in the spring of 1970 under its general authority to protect the credit of its municipalities, and specifically "pursuant to its statutory obligations to require municipal corporations borrowing on tax anticipation notes to prevent continuation of an illegal deficit from year to year."[5]

The authorized $400,000 of tax anticipation notes proved insufficient to allow the city to meet these conditions and its regular obligations. Therefore, Hamtramck met neither general nor pension payrolls due in May and June of 1970. At one point, the problem of unpaid bills became so critical that the city asked the land-fill operator to accept a 1-year property tax rebate as an offset against the city's debt for the use of the land fill.

Fortunately for Hamtramck, its employees continued to work without pay and suppliers continued to deliver essential supplies and equipment despite the large unpaid bills. City employees were able to obtain personal loans from local banks against their back pay, but they had to pay the interest on such loans out of their own pockets.

Beginning July 2, 1970, the city had a renewed flow of cash from 1971 property tax payments and other receipts payable in fiscal 1971. Foreseeing a continuation of the fiscal crisis if 1971 receipts were used to pay past-due bills and payrolls, the Municipal Finance Commission forbade the city to use any 1971 receipts for prior year's bills and payrolls. By its action, the commission intended to force Hamtramck to bring current expenditures into line with current revenues, develop a balanced budget with adequate budgetary controls, and thus give the city a fresh start in 1971. If the city followed the commission's plan, the unpaid prior year's obligations could be met with a single loan.

Getting the city's management to adopt a balanced budget for fiscal 1971 proved difficult. The mayor and council could not agree readily on the method of balancing the budget. After a tentative balanced budget was adopted the city did not exercise the strict budgetary controls necessary to stay within it. With three months left in fiscal year 1971, the city's expenditures were projected at $5.3 million and its revenues at only $4.7 million, with a resulting anticipated deficit of $600,000. Meanwhile the city was hauled into court by unpaid creditors and employees, the Circuit Court of Wayne County and the Attorney General of the State of Michigan and the Municipal Finance Commission. The court placed the mayor, the comptroller, and the council under threat of contempt of court unless the budget was brought under con-

rules and regulations, examine books, records, and finances, issue orders and enforce orders of the commission in the courts.

*It is significant to note that the commission approved the issuance of the notes solely for the following purposes: (1) repayment of a $75,000 emergency bank loan, which had been negotiated with a local bank several weeks earlier without the approval of the commission; (2) payment of $40,000 in overtime wages due policemen; (3) payment of a $78,000 pension payroll then due, and a $111,000 payroll that had been due on March 18, 1970; (4) the remainder of approximately $63,000 to be used against payrolls through the balance of the fiscal year ending June 30. The commission also required that all expenditures be reviewed prior to disbursement and the commission sent a representative to the city to make such a review.

trol so that expenditures would not exceed revenues for fiscal 1971. Faced with the threat of contempt citations, city officials finally authorized the necessary budgetary controls to complete the year with a $60,000 surplus. With continuing supervision from the Municipal Finance Commission, the Circuit Court of Wayne County, and the attorney general, it appears that Hamtramck will operate within a balanced budget, even though a significant number of financial problems remain.

Chief among Hamtramck's problems is pension funding. Police and fire pension requirements for 1972 totaled 22 percent of the 1972 budget which sufficed to meet current pension payrolls only. The pension system lacks reserve funding thus pension costs will continue to be a serious problem for the city. The estimated accrued unfunded liability on July 31, 1970, was $29 million. Actuarial funding of the city's police and fire pension system would require approximately $1.8 million annually, or about 40 percent of the total city budget. To provide such funding, the city would have to use practically the entire 20-mill property tax rate authorized under the State Constitution.

Hamtramck's financial experience has many interesting facets. At a time when city employees were not being paid, the regular $60,000 principal payments together with required interest was disbursed to holders of city bonds. Apparently no consideration was ever given to using the debt service funds for operations.

Despite an awareness by the Federal Government of the city's financial problems and its potential inability to meet its local commitment, the city's urban renewal program continued with Federal assistance. Indeed the city's financial obligation for urban renewal increased throughout the crisis period. Hamtramck's original urban renewal plan called for the construction of a civic center complex, which included a new high school, city hall, and police station. There is little chance that the city will ever be able to provide such facilities in view of its present financial condition. However, if the city does not make improvements as planned within the renewal area, it will be faced with an approximately $600,000 cash debt to the Federal Government for its share of the local program.

The financial emergency in Hamtramck had three causes. First, the city had an almost total lack of accepted budgeting, accounting, and reporting procedures. This problem was identified as early as 1963 in a letter to the mayor and council from the city's certified public accountants. The letter recommended that the city take four steps: (1) change from a cash to a modified accrual basis of accounting; (2) make a 5-year study of the needs of the city; (3) develop a budget process in accordance with accepted standards and exercise budgetary control over city operations; and (4) set up individual accounts for police and fire pension contributions, determine the amounts that needed to be withheld, and clarify the authority for the withholding of pension payments and for the payment of benefits. In addition, the accounting firm also recommended that the council consider obtaining the services of an actuary so that the annual requirements for pension contributions could be included in the budget. None of the recommendations were carried out. New State laws governing local finances and vigilance by the Municipal Finance Commission reduce the likelihood that Hamtramck's experience will be repeated in another Michigan city.

Unfunded pension obligations constituted the second source of Hamtramck's financial emergency. Through failure to provide funding currently for generous future pension benefits, Hamtramck will have to budget ever-increasing amounts for police and fire pensions. Although the city has taken action to amend its charter so that new police and firemen coming on the force do not receive the high benefits that are given to existing police and firemen, it will be many years before Hamtramck gets relief from its unfunded pension obligations.

The third element contributing to Hamtramck's financial crisis was its inability to utilize all available sources of revenues. The city levies an income tax on residents and corporations, but this tax is limited by State law to 1 percent. The limitation is unrealistic because in the city of Detroit, which completely surrounds Hamtramck, citizens and businesses pay a 2 percent income tax by special authorization of State law. In addition, the city has a moderate property tax rate relative to other cities in Wayne County and there is no indication in terms of tax delinquency, property abandonment or vacancies, that the present property

tax is having any deleterious effect on the economy of the city. The city is unable, however, to increase its property tax rate for operating purposes because of State constitutional limitations.

Thus, the city of Hamtramck went through a financial emergency and a form of receivership primarily because of its lack of sound financial management practices, its exceedingly high police and fire pension obligation, and because State statutes limited its ability to raise sufficient revenues to meet its obligations. Effective action by the State through its Municipal Finance Commission and its attorney general, and the cooperative posture of the courts promptly restored a degree of financial stability to the city.

Darby, Pennsylvania (population 14,000)

Although no other city surveyed had a recent financial emergency that equaled the seriousness of Hamtramck's, Darby, Pennsylvania, adjoining Philadelphia, also ran out of money, or at least it thought it had. In September, 1971, the borough sent a telegram to the State department of community affairs, the State auditor general, and the attorney general. This telegram informed them that "Darby Borough Council, being unable to meet any of its financial obligations, salaries, etc., between now and the end of the year, decided to put the Borough in receivership or bankruptcy to the Commonwealth, or whatever your people may be able to do to help us out of this financial predicament." Despite the wording of the telegram, the borough was not, in fact, bankrupt and had at that point met its payrolls or other obligations. But within two weeks Darby had to meet a payroll for which it had neither money nor credit in a bank.

The Pennsylvania Department of Community Affairs and other State officials had no experience in dealing with such a situation, but they sent a team of investigators to Darby within a week after receiving the telegram. This team reviewed the borough's problems and found that a lack of information was part of the problem. The investigators reported "one major reason that Darby is in trouble is that the Borough Council either made no effort or thought it unnecessary to maintain even the rudiments of fiscal control. The basic administration of any kind of adequate bookkeeping system is in doubt." Lacking records, the exact details of the events that lead up to Darby's September crisis and its subsequent alleviation were not adequately documented. No fiscal audit was made at the time of the crisis, and the final year-end audit for December 31, 1971, was still not available in the spring of 1972.

Darby solved its immediate problem with State help and by resort to rather simple expedients. The council, thanks to a political change, was able to make significant cost reductions. The department of community affairs assisted the borough in negotiating a $150,000 bank loan to meet immediate obligations, and provided the necessary technical assistance to permit the sale of bonds to fund the accumulated deficit of the borough. This bond sale, and the use of funds from special accounts provided sufficient cash for the borough to end the calendar year without further crisis.

Darby's problem stemmed from a prolonged failure to balance expenditures with revenues. Financial reports filed with the State show a revenue-expenditure imbalance in all but one of the nine years between 1962 and 1970. The accumulated excess of expenditures over receipts from the 9-year period totaled $182,000, or almost 31 percent of the 1970 general fund expenditures of $590,000. Examination of the year-end cash balances indicates the same trend. At the end of 1967, the borough had a $17,000 cash deficit. This deficit mounted to $27,000 in 1968, $55,000 in 1969, and finally to what would have been an estimated $151,000 at the end of 1970.

In the years prior to 1970, the borough was able to avoid a crisis by using cash from restricted funds to cover the cash deficit in the general fund. In 1970, however, the general fund cash deficit became too large to be covered by cash from restricted funds. Darby then applied tax collections to meet current expenses rather than to the repayment of a $200,000 tax anticipation loan that had been made in anticipation of their collection. The tax anticipation loan was still outstanding at the end of 1970 and had to be carried into 1971 despite the provisions of Pennsylvania law that prohibit such practice. The Darby borough secretary explained, "We realize that the tax anticipa-

tion loan should have been paid back during 1970, but we did not have the available funds and, hence, could not meet this commitment."[6]

The borough's $200,000 tax anticipation loan obligation remained unpaid through September 1971 when the bank indicated its intention to freeze the deposits of the borough until it took action to repay the past-due loan. This precipitated the crisis described in the telegram to the State officials and produced the subsequent action by the department of community affairs.

In retrospect, Darby's financial emergency was unfortunate because it cast a pall over the creditworthiness of many financially strong boroughs in the State. The situation really should never have reached a point that required State action. The borough president elected after the crisis summed up the lesson of Darby: "I think, as in other States, the Commonwealth has to make an effort at the State level to not only sit up there and read the financial reports, and read the budgets as they come up from the municipalities, but they have to be able to come down and audit the proceedings on a local level, on a periodic basis to make sure that the boroughs aren't making mistakes and aren't going awry."[7] He was referring to the fact that the State Department of Community Affairs, through the financial reports that were filed annually by the borough auditors, had clear warning of the situation that was developing in Darby. An official of the department had even called the improper handling of the tax anticipation loan to the attention of the borough official, and had been notified by the borough secretary of the borough's inability to pay off the loan. The department, however, felt it had no authority, except in cases where criminal activities were involved, and followed the policy of no active involvement in borough financial affairs.

It is significant to note that in Pennsylvania a borough must obtain permission from the local county court to levy taxes in excess of State limitations. Darby applied to the courts for an excess levy for the year 1971, and the court granted such a levy. The court, however, did not take appropriate action to require the borough to put its finances into sound condition. Although the borough informed the court that it intended to issue bonds to pay off its cash deficit, there was no court requirement that it do so, and there was no follow-up supervision by the court to be sure that the conditions that necessitated an excess levy were remedied.

The Pennsylvania Department of Community Affairs has re-examined its relations with municipalities as a result of the experience in Darby. It is now making a strong effort to monitor the financial condition of all the municipalities in the State and to provide, at the very least, technical assistance to those that are in trouble before they feel compelled to announce their own bankruptcy.

In summary, the borough of Darby fell into a crisis of its own making because it lacked the financial management necessary to understand its true condition and because it had no incentive to correct its deteriorating financial condition. Fortunately, aggressive and immediate action by the State Department of Community Affairs was able to solve the problem with a minimum of disruption to the employees, creditors, and citizens of the borough.

East Haven, Connecticut (population 25,000)

East Haven, Connecticut, a suburb of New Haven, thought it would be unable to meet current obligations but found a solution at the last minute. The town accepted an increase of 67 percent in property taxes in one year to resolve its financial emergency. Despite the large tax increase neither political nor economic disaster struck the town.

East Haven's financial problems parallel those of Hamtramck and Darby. The town adopted an unrealistic budget each year and then proceeded to expend more funds than it received. From 1964 through 1970, East Haven's expenditures exceeded its receipts by $3.3 million. By June 30, 1970, the town had a cash deficit of $1.3 million funded by the issuance of notes of a like amount.

Part of East Haven's financial problem stemmed from a change in its fiscal year in 1967. To convert from a fiscal year ending September 30, to one that would end on June 30, the town adopted a 9-month budget for the period October 1, 1967, to June 30, 1968. Because East Haven had only six months' property tax collection to finance its 9-month budget, the town sold $900,000 in funding bonds to provide the necessary additional revenues. In addition

to creating confusion in the accounting and reporting procedures of the town, the bond issue fell about $200,000 short of covering the actual revenue gap for the shortened fiscal year.

East Haven's finances were beginning to show considerable stress by June 30, 1969. The audit report for that year noted "the General Fund ended the year with a deficit of $137,848.03 . . . the deficit is calculated on an accrual basis. On a cash basis the deficit is higher by $559,293.77 . . ."

Ignoring its financial condition in an election year, East Haven reduced its tax rate and increased its expenses in 1970. Financial disaster was predictable under the circumstances. When, in the spring of 1970, the town attempted to finance its developing cash deficit by the issuance of short-term tax anticipation notes, bond attorneys notified the town that such notes would not be legal. Connecticut towns with a June 30 fiscal year such as East Haven have no authority to issue tax anticipation notes. East Haven thus faced the obligation of paying off its maturing tax notes prior to June 30, with no way to raise the required cash short of deferring payrolls and other obligations. East Haven's officials declared the town in a state of financial emergency on June 9, 1970.

The town then petitioned the Connecticut Statutory Commission for permission to issue $1,300,000 in bonds. This Commission is a creature of law composed of the Governor, the Attorney General, and the State Tax Commissioner authorized to certify a dire emergency appropriation (from a local bond issue) to meet "an unusual and serious condition endangering public health and welfare and requiring the immediate expenditure of public funds by a particular town or towns."[8] On June 17, the Commission approved $700,000 in bonds to finance East Haven's emergency appropriation. The appropriation was immediately threatened with litigation and a proposed referendum.

On the assumption that it would obtain approval for issuance of bonds to pay the deficit, the town, on May 28, adopted a 1971 budget providing for sufficient tax revenues to cover the entire 1970 deficit in fiscal 1971. The town fathers were counting on approval of the proposed bond issue to raise the necessary revenues, and assumed that there would be no actual need to raise the 1971 tax levy. Meanwhile, town officials negotiated an emergency short-term loan of $1.3 million with a local bank. As a precondition for the loan, the bank required the officials to pledge that they would raise taxes in 1971 if permission to issue bonds was not received.

When the bond issue authorization turned out to be $700,000 compared to the $1.3 million sought initially, the town had no choice but to face up to its commitment to the bank. On June 24 the council approved by a one-vote margin a 95-mill tax rate (a 38-mill increase over the 57-mill rate that was in effect the previous year). The action was effective. The city paid off the bank loan and finished fiscal 1971 with a $509,000 cash balance. In 1972, East Haven lowered its tax rate to 76.8 mills. The town is now operating on a balanced budget with adequate controls.*

East Haven's experience illustrates that some cities can, when pressed, resolve their fiscal problems with their own resources. The State Department of Community Affairs took an active interest in the problems of the town and provided funds for hiring a consultant to help the town improve its financial management, but the key action, approval of the 95-mill tax rate, was taken by the council. Had the council failed to approve the tax rate, the local bank that made the temporary loan might have gone to court with significant long-term fiscal consequences for East Haven.

Cleveland, Ohio (population 751,000)

Cleveland's financial emergency stemmed from its citizens' own choosing. The voters of Cleveland, given the option, turned down referendums to increase the city income tax rate to a level necessary for the support of their existing municipal services in November 1970 and again in February 1971. Defeat of the proposed income tax increase coincided with the expiration of a property tax levy, previously authorized by referendum for a limited number of years. Because of the property tax reduction, and the failure of the voters to approve in-

*Surprisingly, for the year in which the 95-mill rate was in effect, the collection of current taxes as a percentage of current levy increased by one-tenth of 1 percent. Perhaps even more surprisingly, in November 1971 the incumbent mayor, who championed the enactment of the tax as a solution to the problem, was re-elected by a 2 to 1 plurality.

creased income tax measures, the city faced 1971 with approximately $23,000,000 less in its general fund budget—a 20 percent reduction from the 1970 level.

Cleveland had to trim its expenditures to match its reduced revenue as a result of voter rejection of its tax proposals. Although the city reduced its work force, mostly by layoffs, by over 2,000 employees during the early part of 1971, this action could not achieve the requisite expenditure reduction. Cleveland's fiscal problem had been further aggravated when the national economy remained sluggish and income tax revenues failed to match estimates. The city ended the year with a $13 million cash deficit. The cash deficit was covered by borrowing from other restricted city funds such as proceeds from bond sales.

Ohio law provides that all cities must adhere to a cash basis of accounting, and this meant that Cleveland had to provide fully for the $13 million cash deficit in its 1972 budget. Recognizing that this would be impossible without further layoffs or a change in voter sentiment on a tax referendum, the city asked the State legislature for permission to issue bonds to fund the 1972 projected budget deficit. The legislature authorized Cleveland to issue $9.6 million of general obligation bonds to be used for general fund operating purposes and to be payable over five years from unlimited property taxes or any other revenues available to the city. Whereas East Haven had been forced to pay its deficit in cash within one year, the city of Cleveland was in effect given permission to pay off its deficit plus interest over five years.

Cleveland's immediate financial needs were met when the legislature approved the issuance of the city's bonds solely for 1972 operating purposes. But when the legislature failed to demand corrective action by the city to prevent a recurrence of the problem it left Cleveland's financial future murky. Cleveland officials have provided little indication that expenses can be reduced further. The State has not expanded the city's revenue-raising powers. The citizens have shown no tendency to approve any tax increase. The legislature could authorize Cleveland to issue more bonds to fund deficits occurring in future years, and by this method allow the city to circumvent the limit on property taxes because an unlimited tax levy is authorized for debt service on bond issues. The result of such a policy will be described in the case of East St. Louis which has used such a method for over 20 years to avoid a tax limitation.

The Cleveland experience illustrates the problem that can occur when local governments are unable to raise sufficient revenues to balance their budgets because of stringent tax limitations. It also points up the danger in funding an operating deficit by the issuance of bonds while ignoring its underlying causes thereby prolonging the potential for financial emergency.

Somerville, Massachusetts (population 89,000)

The experience of Somerville, Massachusetts demonstrates how bonds can be used to fund a deficit while at the same time attacking its underlying causes. Somerville is an older suburb of Boston. The city succeeded in getting the Massachusetts legislature to authorize the issuance of bonds to fund a substantial operating deficit. On its part, the legislature got the city to agree to manage, with State supervision, its affairs so as to prevent a recurrence of the crisis.

In 1968, Somerville's finances were rocked by two events. First National Stores, the second-largest taxpayer in the city, filed suit to enjoin the city from collecting taxes because of alleged deficient assessment practices. At almost the same time, the Boston and Maine Railroad went bankrupt and has since been unable to pay any taxes to the city. First National Stores was successful in getting permission to withhold any further tax payments to the city until its litigation was resolved. By the end of 1968, the city had temporary loans outstanding of $3.5 million and owed the State over $1.5 million. A year later, Somerville's temporary loans reached $4.5 million and its debt to the State reached $2.7 million.

The city took the view that its problems with its two large taxpayers would be resolved quickly and favorably and accordingly continued to budget on the basis of 100 percent collection of property taxes each year. Almost 10 percent of Somerville's taxes were not being paid because of the litigation and the bank-

ruptcy. In 1970, Somerville's cash problem became acute. The treasurer of the State became concerned about the non-payment of amounts owed the State. The State director of accounts, who is responsible for auditing the accounts of the city and certifying the free cash in order to set the city tax rate, was growing concerned and urged the city to revise its financial plans.

The city's bond attorney brought the impending crisis to a head when he advised both the city and its banker that he would not issue an unqualified approving opinion on the legality of loans unless the loans matured no later than the end of the city's fiscal year. The bank subsequently agreed to accept a qualified opinion with the understanding that during 1971 the city would take action to remove its cash deficit and eliminate future temporary loans extending beyond the end of the fiscal year. This agreement made it possible for Somerville to avert a cash crisis at the end of 1970. It now had the problem of overcoming its cash deficit before the end of 1971.

Faced with almost certain financial emergency unless action were taken, the city went to the State legislature and asked for authority to issue bonds maturing over a 20-year period in an amount that covered Somerville's uncollected taxes. The Massachusetts Legislature agreed to authorize such bonds, but unlike the Ohio Legislature, it imposed conditions on the city to prevent a recurrence of the cash deficit. The legislature required the city to (a) stop budgeting for taxes that it could not reasonably expect to collect and (b) make up any short fall between anticipated taxes and actual receipts in the succeeding year's budget. This procedure foreclosed the possibility of a permanent and expanding cash deficit. In addition, the legislature required that the city budget on the basis of the actual cash receipts in the previous year except where the State certified a different estimate of revenues.

The city proceeded to issue $6,800,000 worth of notes in anticipation of the sale of authorized bonds during 1971 and was thereby able to avoid a financial emergency. Although the city still had a general fund deficit of $2.25 million representing amounts owed to the State at the end of 1971, city and State officials agreed that the 1972 tax levies would be raised to pay off this amount and to remove any other deficit.

The legislative act authorizing the bonds delegates authority and responsibility to the State director of accounts and the State tax commissioner to see that the city meets its commitments and sets its tax levies at a level sufficient to prevent any prolonged cash deficit. If the city fails to submit a proposed tax rate that would accomplish this, the State tax commissioner is authorized to increase the city's tax rate and to require its levy.

Somerville exemplifies the type of cash crisis that could happen in any city when a major taxpayer, or several major taxpayers, do not pay their taxes when due. Hindsight suggests that the problem could have been minimized or avoided by increasing subsequent year's tax levies to offset the taxes not being paid by the two major taxpayers. At the time, however, city officials thought they were acting prudently in expecting that the tax payments would again be forthcoming. Legislative authority for debt financing appears reasonable in the case of Somerville especially when the legislature imposes satisfactory safeguards to prevent a recurrence of the city's troubles.

New Britain, Connecticut (population 83,000)

When New Britain sought State help to resolve an impending financial crisis, it got caught in a crosscurrent of politics over its financial condition. The city fathers went to the Connecticut Legislature in early 1972 and asked for authorization to issue 10 years bonds to finance its operating deficit. The legislature, in which the mayor of New Britain serves as a State Senator, approved the authorization. The governor, who was previously a resident of New Britain, subsequently vetoed the bill and was sustained in his action.

New Britain had all the earmarks of a developing financial crisis at the end of 1971. It had accumulated a general fund deficit of $1.1 million and short-term notes payable of $3.1 million. Its growing deficit stemmed from the traditional source—expenditures totalling $2 million in excess of receipts over a 4-year period beginning in 1967. New Britain, unlike East Haven, had not converted to a fiscal year ending June 30, and was permitted to issue tax anticipation notes which would remain outstanding at the end of the fiscal year. The city

therefore felt less compelled than East Haven to increase its taxes and to take other corrective measures to eliminate its deficit.

The failure of the legislature to approve New Britain's bond issuing schemes has left its fiscal problem unresolved. The deficit may continue to develop until the city reaches the point where it is unable to issue further temporary notes to fund its operation. Although the State tax commissioner has responsibilities that keep him abreast of the local financial picture and attempts to exert pressure on local officials to manage their finances soundly, neither he nor any other State official currently have the authority to insist on a course of action by, say, the city of New Britain, that will solve a financial problem. Thus, New Britain remains in a state of potential financial emergency.

Newark, New Jersey (population 381,000)

In much of the discussion of the municipal finance two cities—Newark, New Jersey and East St. Louis, Illinois—have become almost synonymous with the most acute fiscal crisis. Yet, the financial problems of these two cities stem from quite different sources.

Newark's financial problems relate almost entirely to its extremely high property tax rate. Unlike other cities discussed above, Newark has not been threatened with a financial emergency traceable to a cash shortage. The city has maintained a strong cash position in recent years, has a relatively ample fund surplus, and has experienced only occasional excesses of expenditures over revenues. Newark's problem is its extraordinary high property tax rate—an estimated 7.2 percent of true value in 1971.*

Newark did not voluntarily choose the high taxes associated with its fiscal solvency. New Jersey law requires that the annual budgets in municipalities be based on very conservative revenue estimates. For example, municipalities must estimate their revenues, except those from property taxes, no higher than their actual cash receipts from the same sources in the preceding year, unless they receive permission from the State to do otherwise. In setting their property tax rate, municipalities must allow for uncollected taxes computed by using the percentage of taxes that were uncollected in the previous year.

The expenditure side of a city's budget is, of course, flexible initially, but New Jersey law requires that after the city's expenditure budget is adopted and approved by the State any additional appropriations be considered emergency appropriations. They may not exceed 3 percent of the budget without approval of the State, and they must be provided for in full in the succeeding year's budget. The State imposes uniform budgeting, accounting, and reporting requirements on municipalities, and State-certified auditors are required to attest to the financial reports filed by cities. Thus, the State exercises strict financial control of each aspect of city finances.

The efficacy of State control in avoiding fiscal insolvency was demonstrated in Newark in 1970 and 1971. Midway through Newark's 1970 budget year, the State Commissioner of Education directed the city to restore $10 million to the school budget, the full amount by which the school appropriations had been reduced in the budget originally adopted by the city council. The city had no way of raising the requisite additional funds during the year. The additional school appropriations therefore had to be carried forward into 1971 in the form of a deficit. This deficit plus new fund requirements for 1971 pointed toward a projected budget of $161.6 million—$61.3 million higher than the 1970 operating budget.

Newark could not have met its budget without massive State assistance—direct urban aid, State assumption of the cost of a former city hospital, and reimbursement of costs previously incurred by Newark for operating the hospital. The State authorized the city to impose new local taxes including a payroll tax, a sewer rental tax, and a sales tax. Despite State help, Newark did not escape an additional property tax rate increase. Newark again achieved a balanced budget—it finished the year 1971, on December 31, with $11.1 million in cash and no short-term loans outstanding for operating purposes.

The mention of Newark to many people conjures up visions of massive amounts of Federal assistance. Perhaps no city in the country has received greater Federal funding relative to its

*It is believed that this is the highest effective property tax rate in any major local government in the country.

size than Newark. But, Newark accounts for its Federal aid funds outside its general operating budget. Examination of Newark's financial reports for the year 1970 shows that Federal aid to the city amounted to $362,779 out of total general revenues for the year of $155.5 million, about 0.2 percent of local revenues. The city's operating budgets do not even include anticipated Federal aid. Without firm estimates of anticipated Federal revenues that are acceptable to the State, Federal funds cannot be used as a basis for budgeting expenditures. State procedural requirements preclude Newark from accruing Federal grant funds receivable at the end of a budget year. Federal funds are thus not easily integrated into the routine financial procedures of the city.

Newark's future economic survival is tied closely to its property tax rate. The tax base, judged by changes in assessed valuation, has been trending downward in a time of general inflation in the economy—$1,295,000,000 in 1968 compared with $1,224,000,000 in 1971. The city collects 88 percent of its current property tax levy and although this indicates a relatively high rate of delinquency, the percentage has been about the same since the early 1960's. Construction of dwelling units in Newark has fallen sharply—1,107 units in 1968, only 471 in 1969, and a mere 26 in 1970. Yet, total construction in the city has remained fairly constant over the last five years—e.g., $32.7 million in 1970 compared to $32.5 million in 1969.

The social statistics of Newark indicate the seriousness of the city's financial problem. Over 31 percent of Newark's population receive some form of welfare. Only 7 percent of its housing units are owner-occupied. The median value of Newark's owner-occupied houses is $17,000 compared to Essex County's $27,500. The unemployment rate for its residents exceeds 12 percent. Yet, the economy of the city, although not vigorous, shows no signs of collapse and the financial condition of the government remains strong.

East St. Louis, Illinois (population 70,000)

East St. Louis, Illinois presents many of the same paradoxes found in Newark. It is reputed to be on the verge of bankruptcy. Partly because of this reputation for perpetual financial insolvency, East St. Louis has received large amounts of Federal assistance. Like Newark, East St. Louis has handled its Federal aid outside its general operating budget. The city has been in financial straits more or less continually for over 20 years. By the use of a complex financing arrangement—judgment bonds—East St. Louis has never reached the point at which it could no longer meet its obligations.

East St. Louis chronically spends more than it receives. In 1970, expenditures exceeded revenues by $609,000, or about 13 percent of the total budget. East St. Louis has had an imbalance almost every year for the past two decades. Uniquely, it has found a way to live with these annual operating deficits.

The East St. Louis phenomenon dates back to 1951 when the city first was unable to meet its obligations from current revenues. The city allowed a judgment suit to be brought against it which was settled in favor of its creditors. Under Illinois law, such a judgment can be settled by the issuance of judgment funding bonds payable from unlimited property tax levies in the city. With the exception of 1954, the city subsequently issued judgment funding bonds to meet its annual cash operating deficits. In recent years, the basic procedure has been further improved. The local banks in the city have agreed to advance funds to meet payrolls when the city is short of cash. The banks then secure judgments against the city for the amount of the payrolls that have been advanced, and they are reimbursed from judgment bonds issued by the city. In a similar procedure, vendor claims are sometimes settled by the issuance of judgment bonds that are handed directly to the vendors.

Although it appears that the city's use of these judgment funding bonds indicates dire financial straits, this financing procedure actually permits the city to avoid the State statutory limits on its property tax rates. The city allows its expenditures to exceed tax revenues obtained from the maximum property tax rates allowed by law. It then covers its shortfall by taxes imposed for the purpose of repaying judgment bonds. The amount of judgment bonds outstanding on the general obligation funding debt has been roughly stable at between $3.5 million and $4 million for the last five years. The maturing debt is simply

rolled over from one year to the next.

If the new Illinois State Constitution allows East St. Louis to levy property taxes without limit and if the city is willing to increase its property tax levy by an amount sufficient to fully fund its operating budget while at the same time paying off the funding bonds as they come due, it is entirely possible that the city can stop further use of judgment funding bonds and operate within a balanced budget.

East St. Louis' future, like Newark's, hinges on what happens to its property tax rate. While East St. Louis' effective tax rate is about half of Newark's, it is higher than the rate in any other Illinois city except Chicago, and for this reason is considered by local standards to be extremely high. The city's current tax collections total less than 85 percent of the current levy each year. It appears that delinquency is trending upward one to two percent per year but accurate historical figures on tax delinquency are difficult to obtain. A further substantial increase in taxes would probably accelerate the trend towards non-payment of property taxes.

East St. Louis may be the classic case of a "stagnant city," which Jane Jacobs defines as "a settlement that formerly grew as a city, but has stopped doing so."[9] A visit to downtown East St. Louis and its surrounding residential areas confirms better than any statistic the city's lack of economic vigor. New housing construction, except for Federally subsidized developments, is non-existent. The existing commercial and industrial facilities show every indication of serious economic ill-health. Properties are vacant and badly maintained. Traffic is light even at rush hours.

The city of East St. Louis suffers all the disadvantages of a central city without enjoying any of the benefits. It is by far the largest city in the Illinois portion of the St. Louis metropolitan area. Smaller suburbs, many of which are industrial or residential tax havens completely surround East St. Louis. Annexation of additional territory is thereby precluded. The usual exodus to the suburbs that plagues any central city has occurred with a vengeance in East St. Louis. High-valued office buildings, banks, and insurance companies, usually found in a central city, lie across the river in downtown St. Louis. Major department stores are also located in St. Louis or in suburban shopping centers that represent formidable competition for small businesses in East St. Louis.

East St. Louis' tax base is low and dwindling. Consolidation or tax base sharing with the surrounding satellite communities in St. Clair and Madison Counties would greatly benefit East St. Louis. Short of this, however, it seems clear that Federal or State aid will be necessary to provide residents of East St. Louis with a reasonable level of municipal services. In recent years the city has received Federal aid through Model Cities funds and other categorical programs. Its residents benefit greatly from welfare and other transfer payments made directly to individuals and businesses. Illinois State government, however, has provided neither direct cash assistance nor technical assistance in financial management and control to the city.

The city faces an increasingly difficult financial problem caused by the increasing tax delinquency. Even a temporary failure to pay principal and interest on judgment funding bonds, could result in an end to the city's ability to continue meeting current obligations, thereby catapulting it into a true financial emergency.

Summary of Study Cities

The case studies of eight selected cities reveal several harbingers of serious financial trouble. Each city confronted an excess of expenditures over revenues which in some cities had persisted over several years. The gap

Table 3-7
Revenue-Expenditure Imbalance,*
Eight Selected Cities
(in $ millions)

	Revenues	Expenditures	Dollar Deficiencies of Revenues	Deficiencies As a Percent of Revenues
Cleveland	$ 81.8	$ 95.0	$13.2	—16.1
Newark	147.3	156.3	9.0	— 6.1
Somerville	33.9	35.7	1.8	— 5.3
New Britain	25.0	25.6	.6	— 2.4
East St. Louis	5.4	5.8	.4	— 7.4
East Haven	6.2	7.0	.8	—12.9
Hamtramck	4.7	5.6	.9	—19.1
Darby	.5	.6	.1	—20.0

*The imbalance for each city's most recently reported fiscal year, except for Hamtramck for which the crisis year of 1970 was used.

Source: Compiled from published financial reports and reports filed with State agencies. (See further note at the end of this chapter regarding the reports that were used for this and subsequent tables compiled from these sources.)

Table 3-8
Fund Deficits, Eight Selected Cities
(In $ millions)

	Accumulated Fund Deficit	Deficit as a Percentage of Current Revenues
Cleveland	$13.6	—16.6
Somerville	7.4	—21.8
New Britain	1.1	— 4.4
East St. Louis	.3	— 5.6
Hamtramck	2.4	—51.1
East Haven	.6	— 9.7
Darby	.2	—40.0
Newark	6.7 (surplus)	4.5

Source: Compiled from published financial reports and reports filed with State agencies.

between expenditures and revenues exceeded 5 percent of revenues in each city except New Britain. *(See Table 3-7.)*

Each city, except Newark, had an accumulated general fund deficit consisting of an excess of current liabilities over current assets. *(See Table 3-8.)* Hamtramck and Darby had the largest relative deficits.

Six cities found it necessary to finance their fund deficit by the issuance of short-term operating loans that remained outstanding at the close of the fiscal year. *(See Table 3-9.)* Newark shows no short-term operating loans because it had a fund surplus rather than deficit, and Cleveland shows no outstanding loans because it resorted to internal borrowing instead of bank borrowing.

Revenue-expenditure imbalance, fund deficits, and short-term operating loans outstanding at the end of the fiscal year separately and together signal impending financial trouble.

Table 3-9
Short-term Operating Loans Outstanding at End of the Fiscal Year, Eight Selected Cities
(In $ millions)

	Amounts Unpaid at End of Year	Loans as a Percentage of Current Revenues
Somerville	$4.7	13.9
New Britain	3.1	12.4
East St. Louis	.2	3.7
Hamtramck	.4	8.5
East Haven	1.3	21.0
Darby	.2	40.0
Newark	None	
Cleveland	None	

Source: Compiled from published financial reports and reports filed with State agencies.

Table 3-10
Changes in Expenditure Levels, Eight Selected Cities
(in $ millions)

	Expenditures Most Recent Year	Expenditures Preceding Year	Percentage Change
Cleveland	$ 95.0	$105.8	—10.2
Newark	156.3	156.6	— 2
Somerville	35.7	32.8	+ 8.8
New Britain	25.6	23.1	+10.8
Hamtramck	4.8	5.6	—14.3
East St. Louis	5.8	4.9	+18.4
East Haven	7.0	6.0	+16.7
Darby	.6	.6	0

Source: Compiled from published financial reports and reports filed with State agencies.

The retirement funding problem in Hamtramck suggests that financial managers in other cities should be on the lookout for potential trouble from this source. The lack of budgeting, accounting, and reporting techniques, especially as found in Darby, East Haven, and Hamtramck, indicate that ignorance of financial conditions can trigger a crisis and may cause one. The sudden and unexpected loss of revenues in Somerville and Cleveland, and the unexpected expenditure requirement in Newark confirmed the generally held belief that sharp deviations from the norm can be extremely difficult for cities to manage.

The eight case studies did not answer the question of how far services can be reduced or taxes increased without serious consequences to cities in financial trouble. Cleveland and Hamtramck resorted to actual reduction in levels of expenditure.* *(See Table 3-10.)*

In both cities reductions exceeded 10 percent of previous years' expenditures. Program cuts were difficult to make but apparently did not produce serious consequences.

The State Role in the Study Cities

Several of the eight case studies of cities in financial difficulty demonstrated the important supporting role States can play in the management of city finances. In finance as in other program areas the powers of the city ultimately stem from the State. Thus every city is to a degree dependent upon the State laws and regulations governing its finances.

State influence was negative in the cases of

*Newark shows a decrease because of State assumption of responsibility for what was previously a city hospital.

Cleveland and East St. Louis. State limitations on tax rates contributed to the problems these cities faced and State government apparently had neither the authority nor the interest to help the cities with their financial distress. In the case of Newark, the State's requirement for unplanned expenditures by the city put great pressure on the city's finances, but the State accepted responsibility for freeing-up resources to help the city meet its obligations.

With the exception of New Jersey, the seven States involved in the case studies failed to act effectively to prevent serious financial problems from occurring. Although Pennsylvania, Michigan, and Massachusetts responded to assist Darby, Hamtramck, and Somerville respectively, to overcome their problems after they occurred, the State action came much later than it should have. Connecticut and Ohio, when dealing with the situations in East Haven, New Britain, and Cleveland, helped resolve the immediate financial problems after they occurred, but only in East Haven did the State take any type of constructive action to prevent a further recurrence of the problem. In the case of East St. Louis, the State of Illinois has not directly involved itself in the resolution of the city's problems.

Sooner or later poor financial management in a locality will adversely impact on the State, therefore, it is desirable for the States to require good financial accounting and reporting from their units of government. Without these two elements both the locality and the State may be shocked to find themselves in the midst of a financial emergency.

The case studies disclosed the rudiments of effective State action. New Jersey, with a long and good reputation for professionalism in its State agency concerned with municipal affairs, has been able to work effectively with local officials to preserve fiscal health in the State. Michigan, through the municipal finance commission and the treasurer's office, both of which have able professional staffs, was able to move quickly to assist Hamtramck. Similarly, Pennsylvania strengthened its staff dealing with local affairs and the State gives every indication of an intention to prevent future local finance problems. The common theme in each of these States is a high degree of professional, non-partisan staffing. This contrasts with Connecticut where State-local relationships appear to be less effective due in part to partisan political diversions.

A REVIEW OF CURRENT FINANCIAL CONDITIONS IN THE MAJOR CITIES

To appraise current financial conditions in major cities of the country, the signals of impending financial difficulty inferred from historical experience and the 8 special study cities have been applied to 30 large cities.* The purpose of the review is to isolate the disturbing elements in the financing of major cities and to suggest appropriate policies to avert financial emergencies.

Revenue-Expenditure Imbalances

Historical experience and case studies suggest that most financial troubles begin in cities when expenditures exceed revenues.

All but seven of the 30 major cities had a difference between revenues and expenditures of less than 5 percent of their total revenue. *(See Table 3-11.)* In four cities—Buffalo, New York City, Philadelphia, and Cleveland—expenditures exceeded revenues by more than 5 percent. In most cities, the financial condition oscillates between moderate deficit and surplus with the conditions offsetting one another over the long run. It is therefore appropriate to probe deeper into the finances of the cities with a deficit to see whether it is transitory or persistent.

Only six of the 17 major cities in which expenditures exceeded revenues in the latest year also experienced a deficit in the preceding year. *(See Table 3-12.)*

In Dallas and Cincinnati the deficit dropped sharply from the first to the second year reflecting an apparent effort to close the expenditure-revenue gap. Indianapolis' deficit represented a minor if not insignificant percentage of its total revenues. In New York, Cleveland and Buffalo the expenditure-revenue imbalance apparently worsened.

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*The 30 cities reviewed contained 33.3 million people or 16.4 percent of the total population in 1970. Two of the largest cities are not included in the review, Washington, D.C. was dropped because of its special status and Minneapolis replaced San Jose, California to provide better regional distribution of the cities selected.

Table 3-11
Revenues and Expenditures,* General Fund or Equivalent, 30 Large Cities (in $ millions)

	Revenues or Receipts	Expenditures	Excess or (Deficiency) of Revenues	Percentage Compared to Revenues
Milwaukee	$ 142.5	$ 130.3	$ 12.2	8.6
Nashville	44.1	41.5	2.6	5.9
Pittsburgh	92.2	87.0	5.2	5.6
Denver	87.8	83.6	4.2	4.8
Memphis	83.2	79.7	3.5	4.2
Detroit	458.2	440.7	17.5	3.8
Chicago	396.0	382.0	14.0	3.5
San Diego	65.7	63.6	2.1	3.2
Seattle	64.1	62.3	1.8	2.8
San Francisco	505.8	492.4	13.4	2.6
Minneapolis	41.9	40.8	1.1	2.6
Columbus	50.9	49.1	1.0	2.0
New Orleans	67.7	67.7	0	0
San Antonio	48.8	49.2	(.4)	— .8
Phoenix	68.8	69.8	(1.0)	— 1.5
Boston	312.4	315.6	(3.2)	— 1.0
Dallas	89.2	90.1	(.9)	— 1.0
Cincinnati	55.9	56.4	(.5)	— .9
Los Angeles	288.5	294.0	(5.5)	— 1.9
Kansas City	59.7	61.0	(1.3)	— 2.2
Baltimore	382.4	390.7	(8.3)	— 2.2
Indianapolis	44.4	45.5	(1.1)	— 2.5
Houston	125.6	129.7	(4.1)	— 3.3
Atlanta	58.5	60.5	(2.0)	— 3.4
St. Louis	120.4	124.9	(4.5)	— 3.7
Jacksonville	58.6	61.1	(2.5)	— 4.3
Buffalo	74.3	79.7	(5.4)	— 7.3
New York	7,115.8	7,772.0	(656.2)	— 9.2
Philadelphia	477.9	526.7	(48.8)	—10.2
Cleveland	81.8	95.0	(13.2)	—16.1

Source: Compiled from most recently published financial reports available for each city.

*To the extent possible, the revenues are actual cash receipts for the fiscal year, and the expenditures are actual cash disbursements. In some instances, the available information about the city did not permit the derivation of either actual cash revenues or actual cash expenditures. In those cases, accrued revenues and expenditures were used. Although reducing each city to a cash basis of operation may treat unfairly those cities that follow a sound accrual system, over the long term cash receipts must be roughly equivalent to cash expenditures, or a city will be unable to meet its cash obligations as they come due.

Table 3-12
Cities in Which Expenditures Exceeded Revenues for Two Most Recent Years, Selected Large Cities

	As a Percentage of Total Revenues	
	First Year	Second Year
New York City	— 7.3	— 9.2
Dallas	—10.5	— 1.0
Cleveland	— .6	—16.1
Indianapolis	— .8	— 2.5
Buffalo	— 2.4	— 7.3
Cincinnati	— 3.4	— .9

Source: Published financial reports.

Fund Deficits

Persistent excesses of expenditure over revenues will eventually lead to an excess of current liabilities compared to current assets, or in accounting terms, a fund deficit. Fund deficit information can be derived from an examination of a city's most recent year-end balance sheet. The reports for the 30 major cities indicate that only four had an accumulated general fund deficit at the end of their most recent fiscal year. *(See Table 3-13.)* The largest dollar deficit, $30.1 million was shown by Philadelphia. Differences in balance sheet reporting from city to city makes a substantial difference in the amount of the deficit shown. Some cities adhere to the National Principles of Governmental Accounting, others do not. Cities that adhere to the principles, nonetheless differ in their reporting of various items on the balance sheet. Such differences in accounting frustrate city-by-city comparisons of balance sheet positions. To provide a basis for comparing the general fund cash position of each of the 30 cities, each city's balance sheet was redone on a pro *forma* cash basis from the information available in published reports.*

The recast of balance sheets revealed seven cities with a *pro forma* cash basis general fund deficit—New York City, Chicago, and New Orleans as well as the four cities that had reported deficits in their own reports.** *(See Table 3-13.)*

*The *pro forma* cash basis procedure used in this study was as follows: Assets were calculated by adding cash, investments, and amounts due from other funds or other government agencies. Receivables from taxes and unsecured sources were not included. Accounts payable, including payrolls payable, encumbrances carried forward from the previous year, amounts due to other funds or other government agencies, and notes or warrants payable were deducted from the assets. In some cases, other minor deductions or additions were made in order to make the calculations as nearly as possible a deduction of current obligations from current resources at the end of the most recent fiscal year.

**The method of calculating the *pro forma* cash position results in a misleading figure for the city of Chicago. In Illinois, all cities expand their property tax money a year in advance of collection, and therefore cities often borrow a substantial portion of their tax levy during the current fiscal year with the anticipation of paying it back from tax collections in the succeeding year. Although the procedure is in accordance with State law and considered the normal manner of operation in Illinois, this table points out its potential danger. With a *pro forma* cash deficit that equals 47 percent of its one-year's revenues, it is apparent that any serious revenue failure in Chicago would be much more difficult to manage than would a revenue failure in a city with a cash surplus or with only a nominal cash deficit.

Table 3-13
General Fund
Accumulated Fund Balance or Surplus,
30 Large Cities

	As Reported by City ($ millions)	*Pro Forma* Cash Basis ($ millions)	Cash Balance or Deficit as a Percentage of Annual Resources
New York City	0	(657.6)	(9.2)
Chicago	2.2	(188.3)	(47.5)
Los Angeles	N.A.	N.A.	
Philadelphia	(30.1)	(29.2)	(6.1)
Detroit	(20.5)	(17.2)	(3.7)
Houston	12.6	13.6	10.8
Baltimore	6.5	9.2	2.4
Dallas	4.8	3.8	4.3
Cleveland	(13.6)	(13.6)	(16.6)
Indianapolis	2.0	2.0	4.5
Milwaukee	28.5	17.5	12.3
San Francisco	48.1	79.9	15.8
San Diego	4.8	4.8	7.3
San Antonio	2.4	2.8	5.7
Boston	27.8	42.0	13.4
Memphis	4.0	5.6	6.7
St. Louis	(3.5)	(3.5)	(2.9)
New Orleans	.5	(.8)	(1.2)
Phoenix	2.7	3.0	4.4
Columbus	1.7	1.7	3.3
Seattle	10.0	14.7	22.9
Jacksonville	14.5	15.4	26.3
Pittsburgh	3.4	7.3	7.9
Denver	7.2	7.2	8.2
Kansas City	.6	.7	1.2
Atlanta	5.7	10.1	17.3
Buffalo	2.5	1.6	2.1
Cincinnati	.5	.5	.9
Nashville	2.9	2.8	6.3
Minneapolis	4.4	5.4	12.9

Note: Figures in parentheses represent deficits.
Source: Most recently available published financial reports of individual cities.

Operating Debt

One would expect general fund deficits to be accompanied by short-term borrowing: three of the five major cities that have short-term debt outstanding are cities that also have a general fund accumulated deficit. *(See Table 3-14.)* In the other two cities, short-term debts were avoided by internal loans or the use of other cash funds available to the city, such as those from bond proceeds or trust funds, or by an increase in accounts payable.

Property Tax

It has generally been assumed that current property tax collection as a percentage of current property tax levies will be low in cities where financial trouble is developing. Recent experience indicates that this assumption may be incorrect. In only one of 21 major cities is the current property tax collection as a percentage of current levy below 90 percent. *(See Table 3-15.)* An unusual 1-year delay in tax levying and collecting procedures in Chicago probably contributed more to its apparent delinquency rate than did any deep-seated financial trouble the city may have.

Deep-rooted financial troubles may be more easily detected in the trend of current property tax collections over time. *(See Table 3-16.)* Among the 19 cities for which such information is available, 9 cities experienced either improvement or no change in property tax collections as a percentage of current levy over the 5-year period, 1965-1970. In most of the remain-

Table 3-14
Short-term Operating Debt Outstanding at
The Close of Recent Fiscal Year, Selected Large
Cities (general fund or equivalent)

	Total ($ millions)	As a Percentage or Revenues
New York	$1,575.6	22.1
Chicago	136.4	34.4
Detroit	15.0	3.3
Buffalo	11.9	16.0
Memphis	.3	.4

Source: Published financial reports.

Table 3-15
Current Property Tax Collections
Current Property Tax Collections as a Percentage of
Current Levy, 21 Selected Large Cities, 1970

Denver	99.4
Dallas	98.5
San Diego	98.2
San Francisco	98.4
Phoenix	98.3
Detroit	97.8
Kansas City	97.6
Baltimore	97.6
Cincinnati	97.5
Minneapolis	97.4
Jacksonville	97.2
Seattle	96.9
Buffalo	96.8
Nashville	96.0
Philadelphia	95.6
Atlanta	94.1
Pittsburgh	94.0
Houston	91.7
Boston	90.9
San Antonio	90.6
Chicago	84.7

Note: Information about the other nine large cities is not available on a comparable basis.
Source: Published financial reports.

ing 10 cities, the percentage change is small enough to constitute mere happenstance. The changes may relate to the degree of enforcement of property tax collections within the 5-year period rather than to any fiscal deterioration in the cities with the possible exceptions of Pittsburgh and Buffalo. This quality of the city tax base as depicted in the high percentage of current collections is apparently being maintained.

A city's financial condition is also reflected in changes in its property tax base. Thirteen of 29 cities for which information is available experienced a growth of 4 percent or more in their assessed value, while only three of these 29 cities experienced a decrease in their assessed value.* *(See Table 3-17.)* But in an inflation period when city expenditures necessarily rise, a growth of less than 4 percent in the tax base makes the task of balancing an operating budget much more difficult. Stability has generally been considered one of the good attributes of the property tax. Although the tax does not respond well to inflationary pressures, it does not fall sharply during times of economic decline. Statistical evidence shows that it is the exceptional city that experiences a growth in tax base that would offset the effects of inflation on operating expenditures. *(See Table 3-17.)*

Case studies in this report have identified the level of property tax rates as a source of concern in Newark and East St. Louis. The trend in tax rates in the 30 selected large cities is mixed. *(See Table 3-18.)* Between 1965 and 1970 tax rates for city purposes (excluding schools) rose sharply in only a few cities. In contrast, rates were unchanged or down during this period in seven cities where revenues from other sources and other taxes probably increased. City tax rates, on the whole are not increasing rapidly if a rapid increase is defined as one requiring an average annual increment in excess of 5 percent.

*These percentage changes do not include adjustments for annexations or changes in assessment procedures because, from a fiscal standpoint, the important factor is the total base on which the rate is applied, regardless of the reasons for the base's either being higher or lower.

Table 3-17
Percentage Change in Assessed Value Between 1969 and 1970, 30 Selected Large Cities (without adjustments for annexations or general reassessments)

City	Percent
Dallas	26.4
Memphis	19.4
Nashville	13.1
San Diego	11.2
Minneapolis	9.2
Houston	7.8
Seattle	7.4
Atlanta	6.5
San Antonio	6.1
Denver	5.6
Los Angeles	4.5
Columbus	4.3
Chicago	4.2
New York City	3.0
Jacksonville	2.9
Milwaukee	2.6
Philadelphia	2.6
New Orleans	2.6
Detroit	2.3
Pittsburgh	1.9
Phoenix	1.7
Kansas City	1.4
Boston	1.1
Cleveland	.3
Buffalo	.2
St. Louis	.2
Baltimore	- .1
San Francisco	- .7
Cincinnati	- 1.3
Indianapolis	N.A.

Source: Published financial reports.

Table 3-16
Changes in Current Property Tax Collections as a Percentage of Current Levy, 20 Selected Large Cities (1965-1970)

City	Change
Phoenix	+ .9
Houston	+ .9
San Diego	+ .7
Baltimore	+ .6
Boston	+ .6
Detroit	+ .5
San Antonio	+ .3
Minneapolis	+ .3
Denver	0.0
San Francisco	— .2
Kansas City	- .2
Cincinnati	- .2
Dallas	- .6
Seattle	- .6
Atlanta	-1.3
Chicago	-1.7
Philadelphia	-1.7
Nashville	-1.7
Buffalo	-2.5
Pittsburgh	-2.9

Note: Information about the other 10 large cities not available on a comparable basis.

Source: Published financial reports.

Table 3-18
Percentage Increase in Published City-Purpose Tax Rates, 30 Selected Large Cities, 1965-1970

City	Percent
Minneapolis	52.9
Pittsburgh	44.8
Chicago	39.0
Boston	34.6[a]
New York City	33.5[b]
Atlanta	26.9
Milwaukee	26.1[b]
Buffalo	24.1
Indianapolis	18.6
San Francisco	18.2
St. Louis	15.3
Los Angeles	13.1
Detroit	12.1
New Orleans	11.4
Baltimore	11.0[b]
Philadelphia	7.9
Cleveland	6.4
Seattle	5.0
Dallas	2.9
Cincinnati	2.6
Kansas City	1.3
Memphis	.7
Columbus	0
Denver	0
Phoenix	0
San Antonio	0
San Diego	- 3.1
Houston	-10.0
Nashville	-10.4
Jacksonville	N.A.

[a] 1963-1968 rates, includes schools
[b] Includes schools
N.A. Not available
Source: Published financial reports of cities and Commerce Clearing House reports.

The property tax aspect of municipal finance does not present a general threat to cities in the light of the data presented in this report. Collections are holding up well. The base, although not always increasing, is relatively stable, and tax rates for city purposes are not increasing unusually rapidly in most of the cities. Nonetheless, cities must be ever alert to untoward events such as sudden economic depression or the loss of tax collections from one or more major taxpayers.

Bonded Debt

The current burden of the bonded indebtedness of cities has a significant bearing on their financial condition. In many of the municipal defaults in the 1930's the critical factor turned out to be the unmanageable amounts of debt service charges on bonded debt during a time of declining property tax receipts.

The total tax exempt bonded debt of all local government units has increased 27 percent in the last five years. This increase, accompanied by higher interest rates, has led to a 33 percent increase in the debt service charges for these five years. The burden of these changes relative to resources has not risen because during the same time span the general revenues of local governments increased 50 percent.[10]

Some of the major cities had an even more dramatic increase in debt (and the resulting debt service charges) in the period 1968 to 1971. *(See Table 3-19.)* Three cities—San Francisco, Seattle, and Buffalo—increased their bonded debt by more than 50 percent over a 3-year period. Eleven of the 30 large cities had less than a 10 percent increase over the 3-year period, and 3 of these—Milwaukee, Denver,

Table 3-19
Change in Overall Net General Obligation Bonded Debt, 30 Selected Large Cities, February 29, 1968 to December 31, 1971
($ millions)

	Outstanding 2/29/68	Outstanding 12/31/71	Change
New York City	$3,525.2	$4,833.0	37.1%
Chicago	611.4	708.7	15.9
Los Angeles	914.0	935.1	2.3
Philadelphia	693.4	887.9	28.0
Detroit	410.9	443.0	7.8
Houston	569.0	628.0	10.4
Baltimore	284.1	340.7	19.9
Dallas	299.0	440.3	47.3
Cleveland	235.1	272.4	15.9
Indianapolis	165.8	204.5	23.3
Milwaukee	266.9	226.6	—15.1
San Francisco	225.5	340.2	50.9
San Diego	136.6	165.3	21.0
San Antonio	141.8	155.8	9.9
Boston	261.8	343.4	31.2
Memphis	231.8	271.1	16.9
St. Louis	188.9	205.4	8.7
New Orleans	256.0	288.4	12.6
Phoenix	129.9	138.6	6.7
Columbus	176.6	178.2	.9
Seattle	134.1	221.3	65.0
Jacksonville	66.6	87.4	31.2
Pittsburgh	160.7	160.7	0.0
Denver	66.3	38.3	—42.2
Kansas City	143.9	196.3	36.4
Atlanta	177.5	227.8	28.3
Buffalo	104.3	157.8	51.3
Cincinnati	188.2	195.4	3.8
Nashville	130.4	172.1	32.0
Minneapolis	117.1	110.5	— 5.6

Source: *Municipal Bond Selector*, Standard and Poor's Corporation, XXVII, No. 1, February 29, 1968, and XXX, No. 6, December 31, 1971.

and Minneapolis—actually experienced a drop in amount outstanding.

The relative burden of bonded debt is usually expressed in terms of debt per capita and debt as a percentage of true value. The 30 large cities, by and large, have somewhat comparable debt loads per capita. New York City, at $612, appears out of line relative to the other cities but New York is twice as large as most other large cities.

The representative of one of the large credit institutions expressed a similar opinion when he noted that, "While [general debt service] has more than doubled over the period shown, it fell from 13.2% of general revenues for 1957 to 10.7% for 1969. These figures suggest, as do other series extending back into the late 1920's which we use in municipal credit evaluations, that the burden of municipal debt remains quite moderate relatively."[12]

Table 3-20
General Obligation Bonded Debt
30 Selected Large Cities, December 31, 1971

	Overall Net Bonded Debt ($ millions)	Debt Per Capita	Debt as a Percentage of Value	Per Capita Debt As a Percentage of Per Capita Income
New York City	$4,833.0	$612	7.5	16.9
Boston	343.4	536	17.2	12.0
Dallas	440.3	521	5.0	13.4
Houston	628.0	509	5.5	15.1
New Orleans	288.4	486	6.9	15.8
Atlanta	227.8	458	4.8	11.1
Philadelphia	887.9	456	12.5	12.7
San Francisco	340.2	455	3.4	11.8
Memphis	271.1	435	6.6	16.0
Cincinnati	195.4	432	4.6	13.5
Seattle	221.3	422	3.6	10.8
Kansas City	196.3	387	4.5	11.5
Baltimore	340.7	374	6.4	13.7
Cleveland	272.4	369	3.9	10.8
Nashville	172.1	367	7.2	13.9
Buffalo	157.8	345	8.2	10.4
St. Louis	205.4	338	4.7	12.0
Los Angeles	935.1	331	3.1	7.9
Columbus	178.2	330	4.9	10.2
Milwaukee	226.6	316	4.5	9.8
Detroit	443.0	293	3.9	8.1
Pittsburgh	160.7	285	5.4	11.1
Indianapolis	204.5	275	3.8	7.4
Minneapolis	110.5	254	2.6	6.5
San Antonio	155.8	240	5.3	9.0
San Diego	165.3	237	2.6	7.2
Phoenix	138.6	230	3.7	6.6
Chicago	708.7	204	2.7	5.2
Jacksonville	87.4	173	3.5	6.0
Denver	38.3	75	0.9	2.1

Source: *Municipal Bond Selector*, Standard and Poor's Corporation, III, No. 6, December 31, 1971.

Locally Administered Retirement Systems

The developing problem of the funding of locally administered retirement systems should be of immediate concern in municipal finance. The experience in Hamtramck, Michigan, discussed earlier in this chapter, shows how retirement funding can become a dominant problem in municipal budgets. To determine the potential cost on a city-by-city basis, it would be necessary to make a complete actuarial valuation of each city's system. Because the financial problem associated with retirement systems comes from the fact that many cities have not made an actuarial valuation of their potential liability, a survey of such requirements is not possible. Nonetheless, cities with potential problems stemming from this cause may be detected by comparing financial data on their retirement systems with national averages.

Two measures are useful in analyzing locally administered systems; (1) the net amount of payments for benefits and withdrawals calculated as a percentage of receipts; and (2) the same net payments as a percentage of the total assets of the fund. In 10 of 27 cities for which information is available, net payments as a percent of receipts or assets exceed at least one of the national average ratios by more than 10 percentage points.* *(See Table 3-21.)*

It should be emphasized that neither measure is a substitute for a careful actuarial valuation, but when a city shows a substantial deviation in payment ratios compared to national averages, it may indicate inadequate retirement funding. Differences in benefits and the make-up of the work force eligible for benefits complicate the caluclation of potential future costs from inadequately funded retirement systems. Philadelphia's recent experience indicates the danger of ignoring the problem. A letter from Peat, Marwick, Mitchell and Co. dated December 23, 1971, reporting the results of an actuarial study done at the request of the city, indicated that, "If the city paid the normal cost and interest on unfunded past service costs, its total required outlay would be $87,944,000 for the

*Philadelphia, Indianapolis, Boston, New Orleans, Seattle, Jacksonville, Pittsburgh, Denver, Atlanta, and Nashville.

current [1973] year." The adopted Philadelphia general fund budget for 1972 allocated $46.9 million for payment to the pension and retirement funds of the city. This means that Philadelphia faces a $41 million increase in its budget in 1973 merely to continue its funding of retirement systems.

The drag on city finances as measured by debt as a percentage of true value is substantially greater in Boston and Philadelphia than in the other large cities. This result may reflect inaccuracy in estimating true value in these two cities. When per capita debt is expressed as a percentage of per capita income, Boston and Philadelphia figures are comparable with those of other cities. *(See Table 3-20.)*

It should also be noted that despite their sharp increase in total debt over the latest three years, San Francisco, Seattle, and Buffalo all have a reasonable debt load.[11] *(Compare Tables 3-19 and 3-20.)* Debt service charges on bonded debt do not appear to threaten any of the large cities with immediate exposure to financial emergency. The rapid increase in both total tax exempt debt for all cities and the specific increases for some cities are disturbing trends, but unless there is a sharp downturn in the national economy, the major cities should not experience trouble because of the debt service charges on bonded debt obligations.

In identifying the sources of Philadelphia's increased liability, the accountants cited developments that might be present in any large city. They reported: "The very substantial increase in the past service costs and in the unfunded liability arises primarily from the very substantial increases in pay which have been granted to the various groups of city employees between the two valuation dates. They have also been significantly affected by some of the changes which have been made in the provisions of the plans themselves during this period. Another factor of considerable importance is the fact brought out by a recent statistical analysis that the service-connected disability requirements represent a very much larger portion of total disability requirements than had been previously assumed."

Detroit experienced similar problems in funding its retirement system. In the financial forecast prepared by the city comptroller for the period 1971-1976, he points out that: "The two actuarial pension systems of City of Detroit employees represent one of the fastest growing expenditure items in the budget. Since 1964-65 the combined appropriations of the police and fire and the general city employees systems have increased from $12.4 million to $68.6 million, which has been computed for 1971-1972." In fiscal 1971-72 in the City of Detroit, police and fire pension appropriations represent 50.71 percent of policy and fire payrolls.

A recent actuarial investigation and valuation of San Francisco's retirement systems indicates a required payment into the police system of approximately 36 percent of total payroll and a payment into the fire system of approximately 32 percent of the payroll.

Table 3-21
Municipal Retirement Funding, Locally Administered Systems, 30 Selected Large Cities, 1970-71
($ millions)

	Receipts	Benefits & Withdrawal Payments	Payments as a % of Receipts	Assets	Payments as a % of Assets
National total	$2,361.0	$1,166.0	49.4	$12,469.0	9.3
New York	975.3	463.2	47.5	5,940.8	7.8
Chicago	98.7	52.0	52.7	616.7	8.4
Los Angeles	164.4	71.8	43.7	737.8	9.7
Philadelphia	67.5	44.8	66.4	135.3	33.1
Detroit	88.1	42.3	48.0	457.5	9.2
Houston	13.7	3.6	26.3	63.6	5.7
Baltimore	33.2	16.7	50.3	290.8	5.7
Dallas	20.0	4.6	23.0	100.7	4.6
Cleveland		No Local System			
Indianapolis	4.9	5.0	102.0	.2	+100.0
Milwaukee	21.1	5.6	26.5	172.1	3.2
San Francisco	84.6	34.6	40.9	474.8	7.3
San Diego	13.0	4.9	37.7	63.3	7.7
San Antonio	2.4	.8	33.3	9.7	
Boston	37.0	27.5	74.3	162.0	17.0
Memphis	17.2	6.6	38.4	107.3	6.1
St. Louis	16.2	5.9	36.4	99.7	5.9
New Orleans	9.7	7.3	75.3	22.9	31.9
Phoenix	4.3	.7	16.3	26.2	2.7
Columbus		No Local System			
Seattle	17.3	10.4	60.1	105.6	9.8
Jacksonville	6.6	5.6	84.8	18.8	29.8
Pittsburgh	8.0	7.6	95.0	1.5	+100.0
Denver	8.3	4.6	55.4	24.5	18.8
Kansas City	7.8	1.8	23.1	36.0	5.0
Atlanta	14.1	8.4	59.6	28.3	29.7
Buffalo			Not Available		
Cincinnati	13.4	4.7	35.1	109.6	4.3
Nashville	8.1	5.4	66.6	20.9	25.8
Minneapolis	20.2	11.2	55.4	90.6	12.4

Source: Compiled from "Finances of Employee-Retirement Systems of State and Local Governments in 1970-71," U.S. Dept. of Commerce, Bureau of the Census.

Examination of the unfunded accrued liability of some city pension plans tells the same dire tale.* In Hamtramck, Michigan, the actuaries estimate the unfunded liability at $29 million. This compares with the city's general fund budget of approximately $5 million and its bonded debt of $1 million.

Philadelphia's unfunded future pension costs of approximately $911 million on July 1, 1971 exceeded the city's total general fund bonded debt of $705 million and were almost twice as much as the city spent for all general fund purposes in fiscal year 1971.

The comparison between unfunded pension liabilities and bonded debt is most appropriate because each is a contractual obligation for which the city guarantees payments in future years. Although the pension liability may be less definite in terms of exact amounts payable by years, the total liability is relatively certain and represents a future obligation similar to bonded debt. While virtually every city carefully documents its bonded debt requirements for future years in financial and audit reports, the amount of unfunded pension liabilities is not similarly noted.

Although the depth of the potential financial problem in locally administered retirement systems is unknown, there are clear warning signals that it is one aspect of municipal financial management that needs attention.

Summary of Major Cities

With a few exceptions, 30 selected major cities show a healthy financial condition when measured against the likelihood of financial emergency. It is surprising (in view of the general financial environment presently facing cities) that only four cities had expenditures exceeding revenues by more than 5 percent in their most recent fiscal year and that only six cities have experienced a deficiency in revenues for two recent consecutive years.

Although seven cities show a general fund deficit on a cash basis, only three of the seven cities found it necessary to have short-term loans outstanding at the end of the year to finance the deficit.

*Unfunded accrued liabilities can be generally defined as the benefits earned by retired and current members of the pension system to date, less the assets of the system applicable to such benefits.

None of the major cities showed alarming trends in the property tax area. Delinquency rates were steady. Three cities had a slight year-to-year decrease in assessed values. Property tax rates for city purposes show a mixed pattern with a few cities pushing rapid increase but most cities holding the line or lowering rates. The property tax, the major revenue producer for municipalities, constitutes a source of financial strength rather than a threat to financial stability in the large cities.

Bonded debt and the accompanying debt service requirements are within the carrying capacity of large cities at present, but the trends, if unchecked, may be a cause for future concern.

Underfunding of locally administered retirement systems stands out as the major cause for concern about city finances. At least 10 cities have systems that may not be adequately funded and therefore post a serious future expenditure demand.

GENERAL CONCLUSIONS

Cities must operate in an increasingly difficult environment. The sources of stress often include declining population, changes in its composition, the impact of collective bargaining by city employees, the impact of inflation on the costs of many labor-intensive services that city residents desire, a lack of growth in the tax bases of many central cities, and the slow growth in many of the cities' traditional sources of revenue. These and similar factors combine to create a fiscal and political tightness in the financial affairs of cities that makes them increasingly susceptible to financial emergencies.

Of eight cities whose finances were carefully reviewed because of significant recent financial problems, only two, Hamtramck and Darby, experienced a financial emergency in the context used in this study.

The review of 30 selected large cities revealed that most are presently free of conditions that present a threat of financial emergency. Although a few of the large cities have disturbing indications of potential financial trouble, they appear to have adequate time to implement corrective action.

In the light of historical precedents and actual recent experience, current financial con-

ditions in individual cities need not lead further to a financial emergency. Because sound and responsive management can be a key factor, the following chapter will review ways in which municipal financial practices can be strengthened to prevent such occurrences.

NOTE: The analysis of the financial condition of cities placed emphasis on the use of information from published financial reports.

The reports used for compilation of tables were the most recently available in January 1972. In tables showing year-to-year change, the published reports from the two most recent years were used. The reports were for the fiscal years ending in the indicated calendar years as follows:

	Preceding Year	Latest Year
New York City	1970	1971
Chicago	1969	1970
Los Angeles	1969	1970
Philadelphia	1970	1917
Detroit	1970	1971
Houston	1969	1970
Baltimore	1970	1971
Dallas	1970	1971
Cleveland	1970	1971
Indianapolis	1969	1970
Milwaukee	1969	1970
San Francisco	1969	1970
San Diego	1970	1971
San Antonio	1970	1971
Boston[1]	1969	1970
Memphis	1970	1971
St. Louis	1970	1971
New Orleans	1969	1970
Phoenix	1970	1971
Columbus	1970	1971
Seattle	1970	1971
Jacksonville	1970	1971
Pittsburgh	1969	1970
Denver	1969	1970
Kansas City	1970	1971
Atlanta	1969	1970
Buffalo	1969	1970
Cincinnati	1969	1970
Nashville	1970	1971
Minneapolis	1969	1970
Newark	1969	1970
Somerville	1970	1971
New Britain	1970	1971
E. St. Louis	1969	1970
Hamtramck	1969	1970
East Haven	1969	1970
Darby	1969	1970

[1]For Table 3-11 the 1968 figures were used.

Footnotes

[1]U.S. Bureau of the Census, *Public Employment in 1970* (April 1971), Table 1, and Bureau of the Census, State Distribution of Public Employment in 1960 (April 1961), Table 1.

[2]Edward C. Banfield, *The Unheavenly City* (Boston: Little Brown and Co., 1970).

[3]Charles L. Schultze *et. al.*, *Setting National Priorities: The 1973 Budget* (Washington, D.C.: The Brookings Institution, 1972), p. 304.

[4]David T. Stanley, *Managing Local Government Under Union Pressure* (Washington, D.C.: The Brookings Institution, 1972), p. 132.

[5]From a Brief of the Attorney General as *amicus curiae* filed in the action of Sarah Simms Garrett *et. al.* v. The City of Hamtramck.

[6]William L. Penfield, Secretary, Borough of Darby, in a letter dated September 16, 1971, to Francis M. Geisler, Chief, Municipal Statistics and Research Division, Pennsylvania Department of Community Affairs.

[7]William Gibson, Borough President, at a public hearing on the fiscal condition of Darby Borough, November 17, 1971.

[8]Section 7.379, Connecticut General Statutes Annotated.

[9]Jane Jacobs, *The Economy of Cities* (New York, Random House, 1969). By her definition, a city is "a settlement that consistently generates its economic growth from its own local economy."

[10]U.S. Bureau of the Census, *Governmental Finances*, annual copies from 1965-66 through 1970-71. (Washington, D.C.: U.S. Government Printing Office, 1967-72.)

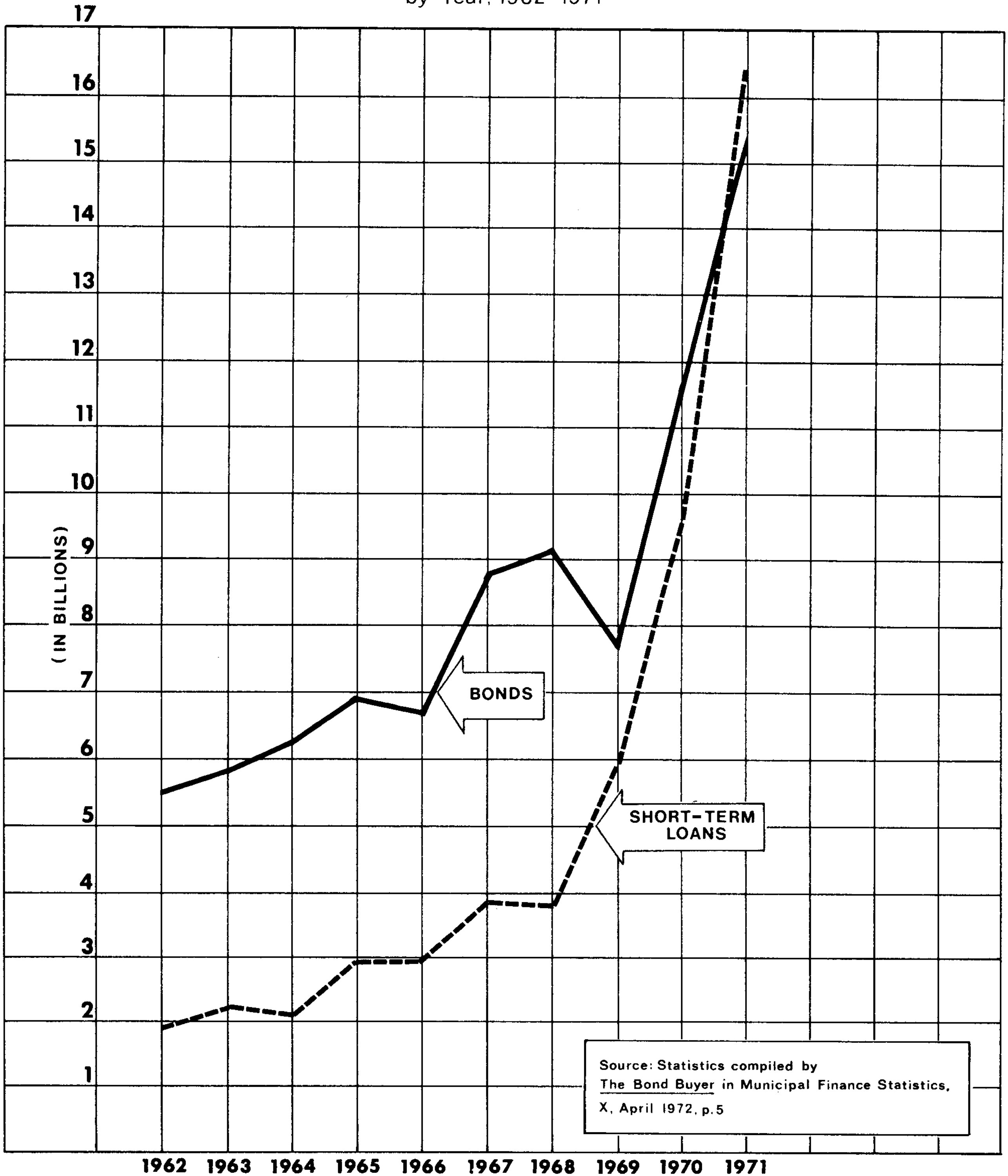
[11]For a more detailed discussion of the postwar burden of local bonded debt, see George H. Hempel, *The Postwar Quality of State and Local Debt*, NBER Series No. 94 (New York: Columbia University Press, 1971).

[12]Wade S. Smith, in a talk before the 29th Annual Conference for Municipal Finance Officers and Clerks conducted by the College of Business and Public Administration and Division of Continuing Education, Florida Atlantic University, in St. Petersburg, Florida on April 20, 1971.

Chart 4-1

State and Municipal Bond and Short-Term Loan Sales

by Year, 1962–1971



INTRODUCTION

Sound financial management stands out as a key element to the prevention of financial emergencies in local government. Financial management can have its greatest impact by focusing attention on four critical areas of municipal finance: (1) the elimination of major revenue expenditure imbalances; (2) safeguards against misuse of short-term operating loans; (3) the adequate funding of local retirement systems; and (4) the improvement of municipal accounting and reporting practices. State laws and regulations may facilitate or hinder sound local finance management thus State policies that encourage good financial practices can help to prevent financial emergencies in cities.

Failure to balance current operating revenues with expenditures is an obvious cause of financial emergency. The emergency may come

chapter 4

THE PREVENTION OF FINANCIAL EMERGENCIES

as a result of a large imbalance during one year or by accumulated smaller imbalances over a period of years. The imbalances are typically caused by sloppy budgeting, unrealized revenues, or unexpected expenditures, or from a combination of these causes.

REVENUE-EXPENDITURE IMBALANCE

If local officials follow sound budget practices, a serious 1-year imbalance should occur only in cases of unexpected, large revenue failure or in cases where large expenditure requirements arise after a budget has been adopted and the tax rates have been established.

The record indicates that such circumstances can, of course, happen. The combination of sudden revenue failure and unplanned expenditure increases led to the municipal default experiences in the 1930's. Recent experiences in Cleveland and Somerville indicate the impact sudden revenue failure can have on the financial condition of a city. Several major cities risked unbalanced fiscal 1973 budgets by assuming that Federal revenue sharing would be enacted. Had Congress decided to delay

enactment of revenue sharing some cities would have found their revenues falling short of 1973 budget estimates. In Newark, at the midpoint of a recent budget year, the city was required by the State to spend $10 million more than it had budgeted for the board of education thereby intensifying the city's financing problems. Any city's financial foundation can be rocked by a tremendous increase in expenditures.

Whether or not the problems caused by massive revenue failure or unexpected expenditure increases will cause a financial emergency depends on the amount involved and how quickly and adequately local officials are able to respond. In the case of a revenue failure caused by a national economic depression such as occurred in the 1930's local officials are powerless to cope with the situation unless the city has very large financial reserves or unless the Federal or State government provides loans or direct financial aid. (During the 1930's, many cities were kept in business by State and Federal aid in financing welfare payments as well as arrangements in some States for loans to cover delinquencies in property tax collections.)

Where the budget imbalance is less severe than one stemming from an economic depression, local officials can trim expenses and perhaps increase revenue. Somerville officials failed either to trim expenses or increase taxes to offset the loss of tax income, and as a result the city was put in a position of potential financial emergency that was only averted by action of the State legislature. The city of Cleveland reduced its expenditures by laying off 2,000 employees which helped but nonetheless proved insufficient. Meanwhile because of restrictive State laws, Cleveland could not increase revenues and therefore, like Somerville, was forced to turn to the State legislature for assistance in averting an emergency. In contrast, Newark when faced with an unexpected increase in expenditures was able to raise its revenues sufficiently in the following year to regain fiscal balance and thereby avoid emergency action. The politically distasteful revenue increase in Newark was made possible in part by State law and by the insistence of the New Jersey Division of Local Finance that municipal budgets not show deficits.

Where State law limits tax rates and revenue sources local officials are restricted in their ability to respond to unexpected revenue-expenditure imbalances. Only 17 States permit municipalities unrestricted and immediate access upon vote of the local governing body to at least one of the three major sources of revenue for local governments. Eleven of the 17 States permit unlimited property tax levies by municipal governments. Six of the 17 States provide unlimited local sales taxes. No State gives its cities unlimited access to the income tax. Even if legislatures permitted their cities unrestricted use of local sales taxes and income taxes, the cities would be hampered by State use of these revenue sources; 45 States now impose sales taxes, and 40 States impose broad-based income taxes. The heavier the State use of these taxes the more severe the practical limits on the ability of municipalities to obtain substantial additional revenues from these sources.[1]

Municipalities in the other 33 States, if confronted with unexpected revenue-expenditure imbalance, are limited by State statutes or State constitutions in their ability to use property, sales, or income taxes as a means of resolving their financial difficulties. Although some of the 33 States permit increases based on local referendum, approval by the State legislature or some formula arrangement, the procedures usually involve lengthy time periods or extraordinary majority approval that may limit their value as solutions in an emergency situation. In 17 of the 33 States, the property tax limitations are based on the State constitutions.

State limitations on a city's ability to raise revenues make drastic expenditure reduction, such as occurred in Cleveland, the only alternative. Speedy reduction in expenditures, however, is a difficult procedure for any municipality. Expenditures such as interest on municipal debt or payments to pension funds are contractual and cannot be eliminated or substantially reduced. Contracts with municipal employees introduce an element of inflexibility in wage and salary costs. Frequently, a city is unable to reduce expenditure items meshed in with Federal aid programs without jeopardizing the city's right to receive the grant-in-aid. In addition, drastic pruning of expenditures for revenue-producing activities, such as tax enforcement of licensing operations may be self-de-

feating because it reduces total revenues. The combination of technical and political problems involved in any drastic reduction of municipal expenditures add up to a politician's nightmare.

When a city confronts a serious unexpected revenue-expenditure imbalance the crucial policy question is whether to reduce expenditures or raise revenues. The potential for a city financial emergency is clearly much greater when city officials have no choice of alternatives as a result of State law. For this reason, States should consider relaxing existing constitutional and statutory limitations on local taxes to give municipalities an ability to raise revenues to balance budgets.

In addition to giving local officials the means to cope with sudden revenue-expenditure imbalances, it is important that both the Federal and State governments work to minimize the incidence of such occurances. At the very least, there should be no State mandating of additional municipal expenditure requirements without sufficient notice enabling the municipalities to include such increased expenditures in their budgets. Both State and Federal governments could render valuable assistance to municipalities in estimating revenues, especially those from State and Federal grants.*

Federal grants are usually not shown in annual municipal budgets because at the time local officials prepare the budget they are unable to obtain sufficient reliable information on which to base revenue estimates. When uncertainty surrounds Federal grants which require matching local funds, local budgets must be revised with frequent damage tt the municipality's overall financing plan.

Merely providing local officials with greater revenue raising flexibility and improved estimates of State and Federal aid, however, will not assure timely action to balance revenues and expenditures. In Somerville, East Haven, New Britain, and Darby, city officials had sufficient time and available means for resolving their developing financial problems. The fact that in each instance local action was late in coming suggests the value of having an intervenor available with the power to compel action. Newark's fast reaction to its budget crisis was prompted by the insistence of the New Jersey Division of Local Finance that the Newark budget be balanced in the current year.

In East Haven and Somerville, bond attorneys eventually applied the force necessary to get corrective action from local officials. In Darby, the pressure came from the local bank. Action by bond attorneys, bankers, and rating or other private agencies, however, is undesirable. When these individuals or institutions force resolution of basic revenue-expenditure imbalances, they do so in behalf of their own or their client's interests, not necessarily those of the public.

It would be desirable for the voters to force the elimination of revenue-expenditure imbalances caused by failure of local officials to either reduce expenditures or increase revenues. Frequently, however, local citizens are unaware of conditions that are developing. For example, the mayor of East Haven, who was elected in 1969, indicates that it was over a year before he really was able to understand the severity of the town's financial problems because of the state of its accounting system.

Fundamental policy disagreements can, of course, lead to the failure to balance revenues and expenditures. For example, the mayor and council in Hamtramck were able to agree on a balanced budget only under the threat of contempt of court, with attendant fine and jail sentence for the mayor, the city comptroller, and each member of the council.

Two alternative solutions are available for revenue-expenditure imbalances that occur because of inaction by local officials. Local citizens may force officials to act, but this requires a greater citizen interest and understanding of municipal financial conditions than can be gleaned from the usual municipal accounting and reporting system. Second, a State agency may compel correction of situations that show evidence of developing into a financial emergency.

SHORT-TERM OPERATING DEBT

Where expenditures exceed revenues a municipality must find the means to cover the

*In Massachusetts, for example, municipalities are given certified State estimates of State aid upon which to base their local budgets. And in Wisconsin, Chap. 17 of the laws of 1971 requires that every State legislative bill which could "increase of decrease the fiscal liability or revenues of general local government," contain an appended fiscal note estimating such liability or revenue.

deficit. Previously accumulated fund balances or surpluses are, in some cities, sufficient to bridge a temporary revenue-expenditure gap. In other cities, cash from restricted funds such as bond proceeds, trust funds, and even in some instances sinking or pension funds, can be used to cover a deficit. Municipalities that run a persistent deficit must resort to short-term operating loans.*

Because short-term operating loans indicate a cash deficiency, they are a clear indication of trouble. Municipalities that have an increasingly larger amount of such loans outstanding at the end of succeeding fiscal years have greatest potential of reaching a fiscal emergency.

Wade S. Smith has described the problem as follows:

> Temporary borrowing, unless judiciously managed, poses two potential threats to financial stability and the orderly execution of fiscal programs: first, if permitted to accumulate, it may readily reach unmanageable proportions, posing difficult and expensive problems of refinancing; and second, loans of fixed maturity, falling due in an adverse or chaotic market, may be difficult or impossible to refinance. Either situation alone is fully capable of precipitating a default which spreads to other obligations, and the two in combination are a virtually sure-fire prescription for default and complex curative programs.[2]

Short-term operating loans are a useful tool of municipal financial administration. The Massachusetts legislation of 1914 permitting such loans was considered one of the most advanced pieces of legislation of its kind in the United States at the time. The loans 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 provisions for their payment . . .[3]

The fact that improper use of short-term indebtedness was an important causal factor in many of the municipal financial crises, such as Fall River, Detroit and other cases described in this report, demonstrates the grave results that can come from improper use of such indebtedness.

A disturbing aspect of short-term operating loans is that cities slide into an abuse of these loans without planning to do so. For instance, a city that has borrowed to provide cash flow may realize late in the year that the revenue collections upon which the borrowing was based will not be realized. In these circumstances, it is easy to justify carrying the debt over to the following year. Or a city may find that its expenditures have exceeded the budget, and that it is easier to carry the short-term loan over to the following year than to make an abrupt expenditure reduction before the end of the year. There is also an indication that on occasion cities intentionally overestimate revenues, and then borrow against them with the intention of carrying over loans in the amount of the unrealized revenues.

The detection of unwise use of short-term operating loans is difficult. In the review of financial conditions of 30 selected large cities it was noted that five had short-term loans outstanding at the end of their most recently reported fiscal year, but no information is available on a national basis that shows either the number of cities with short-term operating loans outstanding at the end of their most recent fiscal year or the total dollar amount of such loans. The amount of short-term operating loans outstanding can only be inferred from data that unfortunately includes bond anticipation notes and Federally guaranteed urban renewal and housing loans in addition to operating loans. (*See Table 4-1.*) These data show that the total short-term debt for city governments increased more than 141 percent over a 5-year period, an ominous trend despite the lack of clear definition.

The annual sales of State and municipal general obligation short-term loans have increased sharply since 1968, and in 1971, for the first

*It is important to differentiate short-term operating loans that are used merely to even out cash flow during the fiscal year. Many cities in sound financial condition with no persistent revenue-expenditure imbalance or accumulated deficit find it necessary to borrow during their fiscal year because the timing of cash receipts does not coincide exactly with cash disbursements. These transactions present no cause for alarm provided such loans are fully repaid before the end of the fiscal year.

time, exceeded the sales of bonds, another indicator of the trend that may be occurring in short-term operating loans. *(See Chart 4-1.)* The next annual change in short-term municipal debt outstanding by calendar year, also demonstrates the trend toward sharply increased municipal short-term debt since 1968. *(See Table 4-2.)*

The implications of short-term debt for the financial health of cities is largely ignored. The cities themselves, in many instances, do not recognize the threat such loans are to their fiscal condition or, if they do recognize the threat, tend to ignore it. Few State governments adequately monitor and control the use of short-term debt by municipalities. The Federal Government neither gathers nor disseminates meaningful statistical information about this type of debt.

Given the trends in the use of short-term debt since 1968, it is essential that all three levels of government begin immediately to pay attention to this aspect of municipal finance. Banks, also, should stop taking a lenient attitude regarding late payments and renewals of operating loans. Even in the instances where a city was clearly in violation of State laws, or in technical default, local bankers have been reluctant to take action in the cases studied and have thereby let the problem grow to even larger proportions.

Care and prudence should characterize the use of short-term debt. When properly used, such debt can fill in the valleys between peaks of cash flow. In the event of sudden revenue failure or unexpected expenditure pressures, short term debt may be the best instrument to avert financial emergency until more permanent solutions are discovered. Local officials may abuse short-term debt, however, by using it to avoid the perennial necessity of bringing expenditures and revenues into alignment. It seems reasonable to suggest to policymakers at all governmental levels that more information must be made available about short-term borrowing as it relates to municipalities. A. M. Hillhouse's conclusion remains as valid today as it was in 1936:

> There is no better index of the financial health of a municipality than its short-term borrowing policy, because deficit financing will account for the major portion of short-term debt.[4]

It is also reasonable to suggest to decision-makers in state government and in private agencies, such as banks, bond attorneys, and rating agencies, that they must show much greater concern regarding individual instances of the use of short-term debt when it carries beyond the end of a fiscal year. State laws regulating the use of such debt must be strictly enforced, and where State laws are lacking, they should be enacted. At a minimum, such laws should require that any short-term debt that remains unliquidated at the end of the fiscal year be charged against any general debt limits and provision for its retirement be automatically included in the next year's budget.

Table 4-1
City Government
Short-term Debt Outstanding
1965-66 through 1970-71

Fiscal Year	Amount ($ Millions)	Percentage Increase Over Preceding Year
1965-66	$2,822	
1966-67	3,199	13.3
1967-68	3,563	11.4
1968-69	3,721	4.4
1969-70	4,903	31.8
1970-71	6,821	39.1

Total increase over five years: $3,999

Source: *Summary of City Government Finances: 1970-71 and Prior Periods*, U.S. Department of Commerce, Bureau of the Census, Table 1.

Table 4-2
Short-term Municipal Debt
Net Annual Change in Debt Outstanding
($ millions)

Calendar Year	Amount*
1962	$ +344
1963	+585
1964	+419
1965	+1,205
1966	+270
1967	+1,466
1968	+119
1969	+3,538
1970	+4,716
1971	+4,140

Source: Compiled from unpublished Federal Reserve information

*Table 4-2, showing net change in debt outstanding is not related to Table 4-1, showing the amount of debt outstanding. Table 4-2 presents data as of the end of the calendar year, Table 4-1 is for the close of the fiscal year. Moreover, calendar years end in the middle of many cities' fiscal years before loans made and outstanding for cash-flow purposes have been repaid from current tax collections, hence totals in Table 4-2 look high relative to totals in Table 4-1.

LOCALLY ADMINISTERED RETIREMENT FUNDS

The 1967 Census of Governments reported 1,982 locally administered government retirement systems, of which 1,704 were municipal. In the fiscal years that ended between July 1970 and June 1971, municipalities contributed $1.3 billion to locally administered funds. During the same reporting period, local governments contributed $1.4 billion to State administered systems. Therefore, locally administered municipal retirement funds collectively are receiving almost half the local government payments into retirement systems.[5]

In locally administered systems, administration is typically the responsibility of a locally appointed board consisting of representatives of employees, of city government, and of the public. Frequently, the chief finance officer of the city provides the day-to-day administration of the system on an *ex officio* basis. The system may be authorized by either State law, city charter, or act of the local council.

The analysis of current financial conditions in 30 selected large cities revealed that current underfunding of locally administered retirement systems could result in future financial trouble for some cities. (*See preceeding chapter.*) Local governments have particular difficulty in controlling pension benefits and providing actuarally sound funding. A recent Brookings Institution study pinpointed the source of the difficulty:

> Where pensions are concerned, moreover, major concessions may be politically tempting since there is no immediate impact on the taxpayer or the city budget. Whereas, actuarial soundness would be insisted on by a profit-seeking entity like a firm, it may be a secondary concern to politicians whose conduct is determined by relatively short-run considerations. The impact of failing to adhere to actuarial principles will frequently fall upon a different mayor and a different city council. In those circumstances concessions that condemn a city to future impoverishment may not seem intolerable.[6]

The difficulties in controlling benefits are particularly noticeable in the case of police and fire pension funds. Strong local support in many cities makes it very difficult to deny police and firemen early retirement and liberal disability benefits because of the hazardous nature of their work. Compounding this problem is the present tendency for police and firemen to retire earlier than in the past.

Local control of pension costs is further complicated by the pressure to maintain the relative attractiveness of local benefits compared to those provided by the Federal Social Security system. In some cities, local systems were established with higher contributions than the Federal system in order to pay substantially higher benefits. As Congress regularly increases the benefits of the Federal system without requiring significant increases in contributions, local government systems are under pressure to match each given increase in order to maintain their competitive position. Such forced increases in benefits—and costs—can jeopardize the financial stability of the local funds.

The granting of improved benefits must be accompanied by a full understanding of the implications for financing such benefits. As Representative Martha W. Griffiths stated:

> . . . people must awaken to the tax burden that is being placed on the average taxpayer by these retirement systems. . . . At some point, a sensible set of rules setting forth how much the public can finance in retirement benefits will simply have to be arrived at, and methods of estimating future burdens from present grants and benefits will have to be developed and made general for Federal, State and local systems alike.[7]

Unfortunately, in cases where unrealistic benefit improvements are given for political or other reasons, the city is unable to correct the problem later. Although attorney generals in at least two States are considering ways to reverse benefits once given, the generally accepted view is that benefits are contractual obligations and cannot therefore be abrogated unilaterally.*

*The Attorney General's Office in Michigan is considering a lawsuit to amend some of the benefits given in Hamtramck's retirement system. The Attorney General's Office in New Jersey is currently in litigation aimed at placing the Hudson County Employee's Pension Fund in receivership, and ultimately to reduce or cancel some disability pensions granted.

There are two basic approaches to funding government pensions. One approach consists of fully funding on a current basis the future liabilities of the system. This means establishing present contribution rates at a level that will provide an accumulated fund sufficient to pay the benefits to each employee at the time he becomes entitled to them. The second approach is based on the theory that governments, because they are permanent, do not have to provide funding for future pensions, but instead can appropriate sufficient funds on an annual basis to pay the benefits currently due. The difference between the two approaches involves very significant amounts of money. For example, one study recently estimated that a pay-as-you-go retirement system for school employees, as contrasted to the generally used practice of fully funding on a current basis, would free between $2 billion and $3 billion of existing revenues to help improve the quality of educational opportunities.[8]

The easiest course for local officials to follow is pay-as-you-go financing because this permits deferring the costs of present benefits. The precedent for such an approach has developed in the national policy discussions regarding the financing of Social Security. The Director of the U.S. Bureau of the Budget, in 1967, stated:

> The Federal government, through legislation, has entered into a solemn contract with its employees to pay them retirement benefits according to a stipulated formula. Why does anyone believe that the only way that this solemn obligation can be guaranteed is through the appropriation of large sums into the retirement fund—in advance of need. . . .[9]

Although this same reasoning might justify less than full funding at the local level, it should be recognized that there are significant reasons for differentiating between the financing requirements for a national system such as Social Security and a locally administered city retirement fund.

The most significant reason is that local governments do not possess the revenue raising ability of the National government. Many cities have tax limitations that prohibit significant increases in locally raised revenues, even for contractual obligations such as pensions, and the cities have no assurance that there will be adequate underlying tax resources available in the distant future when such obligations come due. The cities have only those taxing powers delegated to them by the sovereign States.

Table 4-3
City of Detroit
Actuarial Pension Appropriations
As a Percentage of the Total
General Fund Bdget
1954-55 through 1970-71

Year	Actuarial Pension Appropriations	Total General Fund Budget	Pension Percentage
1954-55	$12,445,831	$149,276,753	8.34
1955-56	14,666,401	155,751,036	9.42
1956-57	16,540,215	185,402,930	8.92
1957-58	17,358,928	179,391,242	9.68
1958-59[a]	18,331,253	187,170,043	9.79
1959-60	15,311,341	193,273,495	7.92
1960-61	11,496,352	219,015,819	5.25
1961-62	12,116,760	212,066,847	5.71
1962-63	21,921,143	245,642,958	8.92
1963-64a	27,457,310	244,843,065	11.21
1964-65a	28,758,939	241,292,614	11.92
1965-66a	29,748,500	259,388,454	11.47
1966-67	27,715,298	277,641,226	9.98
1967-68	31,751,283	280,847,359	11.31
1968-69	40,009,490	308,822,930	12.96
1969-70	44,945,688	358,342,918	12.54
1970-71	55,304,905	407,278,378	13.58

[a]During the fiscal years 1959-60, 1960-61, and 1961-62 amounts appropriated were less than required by the respective actuarial valuations. These shortages were made up, with interest, pursuant to a court order during 1963-64, 1964-65, and 1965-66.

Source: *Detroit Financial Forecast 1971-76,* Office of the Comptroller, City of Detroit, p. 18.

At the local level, the discipline of immediate full funding of potential retirement benefits is necessary to show citizens the costs of the benefits. The soundness of this policy has been demonstrated by Detroit's experience. If the city had not been forced by State law to fully fund its pension system but instead had maintained a fixed percentage of its general fund budget as its contribution, say 8.34 percent as it was in 1954-55, by the 1970-71 fiscal year Detroit would have underfunded its pension system by $81.5 million. (*See Table 4-3.*) If it had followed the practice that some jurisdictions follow of contributing a flat dollar amount each year, the underfunding would have amounted to $224.7 million. Detroit has given generous benefits, but it has been forced to face the expense of these benefits on a current basis and not pass them on for future city administra-

tions. This is not the case in cities operating without requirements for realistic pension funding.

The further reason for differentiating between locally administered systems and Social Security is the uncertainty about the nature of the contract that municipal employees have with their local systems. Traditionally, the ability of a city to fulfill its contractual obligations to its bond holders has been a matter of concern yet similar concern is seldom expressed about possible defaults by local governments on payments to its pensioners.*

Individual pensioners, and even pensioners collectively, because of their limited wealth and their inexperience in such matters, cannot enforce their contract in the fashion that bondholders or suppliers can.

It is hard to make a case for pay-as-you-go funding for local retirement systems although pay-as-you-go may be appropriate for Social Security and, to a lesser degree, State pension systems. States should therefore require substantial full funding of locally administered systems. The scope and content of State action in this field has been outlined in the report of a Michigan study commission. The public interest as well as the interest of the public employer and employee in local pension plans are of such importance that the State should establish basic requirements for and supervise the administration of such plans.

The State legislation should include at least the following:

1. That a local board of trustees be appointed and be legally responsbile for administration of the plan.
2. That an actuarial valuation of the plan be made annually. Consideration should also be given to requiring an actuarial valuation of proposed changes in plans prior to their adoption so that the legislative body and public will be aware of the costs to which they are committing themselves. Since the Constitution makes the accrued financial benefits of a pension plan a contractual obligation, it is imperative that the full fiscal implication of any proposed change in benefits be thoroughly examined.
3. That local pension plans comply with the constitutional requirements that, "financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities."[10]

As an alternative to regulation of local pension systems, States should consider enacting legislation to consolidate all locally administered plans within the State into a single State-administered system. Ample precedent for such a move can be found in the experience of Ohio, which consolidated its locally administered police and fire retirement funds, many of which were unable to pay benefits at the time of consolidation. A State administered system has many advantages; among them are the possibilities for more professional management of the larger system, as well as removal of the political temptation to give unfunded benefits.

ACCOUNTING AND REPORTING

The need for improvement in municipal accounting and reporting has long been recognized. A report to the New York Legislature in 1891, noted that:

> 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.[11]

In 1935, still addressing the same problem, Van de Woestyne noted three reasons to justify good local financial reports. He said,

> . . . 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. . .

*For example, in the late 1950's and early 1960's, prior to the creation of the State police and fire pensions fund in Ohio, many cities fell several years behind in their payments to police and fire pensioners. Despite this default on the contractual pension obligation, the cities were able to maintain high quality bond ratings.

In the second place, financial statistics of local finances have great value in connection with municipal administration. Good financial management . . . requires 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. . . .

Finally, from the scientific point of view, the data of municipal finance, logically classified in accordance with a uniform schedule, are invaluable to the student of modern social conditions.[12]

The problem of complete and comprehensible reporting on city finances still exists. Because of the increased scope and complexity of local government finances, the need for good information is greater now than ever. The obstacles to better financial reporting were recently enumerated by Wade Smith, vice president of Dun and Bradstreet, Inc., as follows:

One difficulty is the lack of standardized budgeting and accounting systems . . . another is the problem of compiling data from diverse units using diverse systems on a basis capable of providing reasonable comparability and continuity. But the great difficulty is that the [Federal] system used to collect, compile, and publish our State-local financial data was designed by economists and statisticians, not by municipal finance specialists and designed, at that, for the purpose of supplying national income series inputs rather than as a source of primary information on governmental programs, costs and revenues.[13]

Few States have made the effort to require uniform municipal accounting and reporting. State efforts have been motivated more often by the desire to insure honesty in the handling of public funds than to portray the true financial conditions and the financial transactions of their municipalities.

Some States have developed customized accounting and reporting systems that they require all municipalities within the State to use. The failure to update or improve many of the State systems has inhibited municipalities from improving their accounting and reporting because to do so would put them into conflict with State requirements. The States themselves find it difficult to modernize their systems. The time and effort required to implement changes in the basic accounting systems of all municipalities throughout the State frequently seems more trouble than it is worth. Consequently, municipalities in many States are required to use antiquated and ineffective accounting and reporting systems.

Many of the shortcomings in municipal accounting and reporting could be overcome if the national accounting standards developed over the years by the National Committee on Governmental Accounting were conscientiously followed.* Since 1946, the Municipal Finance Officers Association of the U.S. and Canada has issued certificates of conformance to cities that conform to the national principles. Half of the 30 selected large cities analyzed in this report have received the M.F.O.A. Certificate of Conformity. (See Table 4-4.)**

While major private corporations, almost without exception, have audits performed by independent certified public accountants; major public corporations—municipalities—do not. Again, 15 of the 30 selected large cities analyzed in this study include audit statements certified by independent public accountants in their published reports. In the remainder of the cities, the financial reports are certified by the chief financial officer of the city, a city government auditor, or a State auditor. Audits and the accompanying statements done on this basis tend to show less care and objectivity than would be expected from an independent accountant.

Progress in improving municipal accounting and reporting is slow because of the lack of incentive for improvements. Investors who would not consider investing their money in a corporation that failed to have an independently audited annual financial report conforming to the nationally accepted standards for pri-

**Because the procedure for awarding certificates requires application by the city, some cities may not have received certificates due to failure to apply rather than failure to conform. An examination of the financial reports of the 30 cities indicates, however, that those with certificates had reports of higher quality than those without certificates.

Table 4-4
M.F.O.A. Certificates of Conformity and Independent Audits by Certified Public Accountants

Certificate	Year of Conformity	Awarded	Financial Report by Independent Private Auditors
New York City	—	—	—
Chicago	Yes	1963	Yes
Los Angeles	—	—	—
Philadelphia	Yes	1958	—
Detroit	Yes	1946	—
Houston	Yes	1962	Yes
Baltimore	—	—	—
Dallas	Yes	1952	Yes
Cleveland	—	—	—
Indianapolis	—	—	—
Milwaukee	—	—	—
San Antonio	Yes	1956	Yes
San Francisco	—	—	—
San Diego	Yes	1953	Yes
Boston	—	—	—
Memphis	—	—	Yes
St. Louis	—	—	Yes
New Orleans	Yes	1959	Yes
Phoenix	Yes	1954	Yes
Columbus	—	—	—
Seattle	Yes	1961	—
Jacksonville	—	—	Yes
Pittsburgh	—	—	—
Denver	Yes	1961	Yes
Kansas City	Yes	1946	Yes
Atlanta	Yes	1969	Yes
Buffalo	Yes	1959	Yes
Cincinnati	—	—	—
Nashville	—	—	—
Minneapolis	Yes	1971	—

Source: Municipal Finance Officers Association

vate accounting and reporting readily invest money in municipal bonds without benefit of such a report.

There are at least three possible ways to provide an incentive for improved accounting and reporting at the local level: the State government could impose requirements; the Federal Government could impose requirements; or the investment banking community could impose requirements as a condition for the purchase of municipal securities at competitive rates.

Colorado recently took action to improve financial reporting by its local governments. The essential portion of the Colorado Law provides that:

88-6-5. *Contents of report.* - (1) (a) All reports on audits of local governments shall contain at least the following:

(b) Financial statements which shall be prepared, insofar as possible, in comformity with generally accepted governmental accounting principles, setting forth the financial position and results of operation of each fund and activity of the local government and a comparison of actual figures with budgeted figures for each fund or activity for which a budget has been prepared. Such financial statements shall be the representations of the local government.

(c) The unqualified opinion of the auditor with respect to the financial statements of the local government, or if an unqualified opinion cannot be expressed, a qualified opinion or disclaimer of opinion containing an explanation of the reasons therefore.

(d) Full disclosure by the auditor of violations of state or local law which come to his attention.[14]

Some States retain requirements that are in conflict with generally accepted government accounting principles. At the very least, each State should review its laws and regulations covering municipal accounting and reporting, and remove any provisions that are in conflict with nationally accepted principles.

Because of the increasing Federal role in financing local operations, the Federal government could encourage improved accounting and reporting procedures.[15] One possibility that has recently been considered is Federal acceptance of local accounting and auditing procedures for Federal grants provided they are carried out in a fashion acceptable to the General Accounting Office. Such proposals have two major problems. First, the Federal Government has not been willing to accept accounting and auditing based on compliance with the existing national principles but instead has insisted on establishing completely new criteria and procedures. The second problem is the lack of general involvement by the Federal Government in municipal finances. Prior to general revenue sharing, the Federal Government dealt with the States except for special types of categorical program grants that went directly to cities. It is entirely possible that as general revenue sharing is implemented, and the Federal Government becomes

interested in the accounting and reporting procedures of every municipal unit of government through the administration of these funds, a Federal incentive may be provided for improvements in municipal accounting and reporting.

An alternative to either State or Federal required changes in accounting and reporting would be a system that would provide a voluntary incentive for cities to make changes. For instance, the bond rating agencies could give special rating credit to those cities that issue clear, concise financial reports in conformity with nationally accepted standards. In effect, the bond-rating agencies would act as a noncoercive Securities and Exchange Commission. The cities could either comply with the standards and be recognized as being in conformity, or they could take the chance of receiving less favorable bids because they had failed to comply with the accounting and reporting requirements.

Another alternative would be to establish a Federal Registry agency, similar to the SEC, where municipalities would have the option of registering prospective bond or note issues. For the cities who chose to register their issues, the agency would verify the financial information supplied and require that it be made available to all prospective investors in a uniform form. A municipality that did not register with the agency would not be limited in selling its notes or bonds, but it might be less likely to get favorable interest rates because of investor concern as to why the city had not met the guidelines and requirements. The cost of operating such a registry service could easily be handled by a small fee paid from the proceeds of the bonds.

The importance of improvements in municipal accounting and reporting should not be underestimated when considering the potential for financial emergency. Although it may be true that good accounting and reporting will not in and of themselves prevent an emergency, it is very difficult to detect early warning signals of financial emergency and to know the appropriate corrective action to take unless there is disclosure on a uniform basis of the true financial condition of municipalities. State officials, local officials, and the citizens themselves must have an understanding of what is taking place in the finances of their municipalities if they are to be able to respond and correct conditions before they lead to financial disaster. In many cases, the basis for such understanding is not now present, and immediate and concentrated effort to correct accounting deficiencies is necessary.

STATE RESPONSIBILITY FOR MUNICIPAL FINANCIAL MANAGEMENT

The need for specific State action to improve local financial management has been pointed out earlier in this study. In the main, States have neglected their overall responsibility for supervising and assisting in the improvement of local financial management.

For purposes of this study, States were surveyed to determine the present State-local relationships with respect to budgeting, accounting, financial reporting, and the issuance of short-term operating debt. Information was also collected about specific State agencies charged with exercising control over local finances. The State-by-State summary of the survey is contained in Appendix E.

The survey showed a wide variety of relationships ranging from no administrative supervision of municipal finance in five States to a complete supervision of virtually every aspect of local finance in two States. A large number of States require local governments to file a financial report annually with a State agency. Several States merely receive the reports, and as one official commented, "put it in a box in the basement." In other States, the reports are carefully reviewed to determine deficiencies in financial management. Several States require local governments to submit their budgets to State scrutiny—in some States, prior to adoption, in others, after the budget goes into effect. In some States, budgets must be filed so that a State agency may determine that constitutional or statutory tax limits have not been exceeded. Some States require a review of a municipality's financial condition before bonds or notes may be issued, and others exercise no supervision over local debt issues.

From the great diversity of State supervision of local finances, three general alternative approaches can be discerned, each with its advantages and disadvantages.

No Substantive Administrative Control by States

One alternative is that substantive State involvement in local financial matters be kept to a minimum. Municipal taxing and borrowing would be governed by constitutional and statutory delegation of these powers to the municipalities, and by whatever statutory controls of a self-executing nature might be necessary. In addition, there would need to be provisions for State action by the attorney general or another appropriate State authority in the case of criminal acts by municipal officials. Although financial reports might be required, the action of the State would be limited to statistical compilation of the information submitted and examination of the reports for criminal violations. Underlying this approach is the assumption that in the event a municipality has a financial emergency that cannot be resolved without State involvement, the legislature, by special act will determine what role the State is to play.

Arguments for this alternative are primarily based on the home-rule concept. In creating cities, States should give them authority to conduct their own affairs and should not interfere unless there is an actual breakdown of the basic system. It is argued that State officials are not well informed about local conditions and needs, and should not, therefore, be in a position of imposing their will on local officials. By giving cities protection from interference by State officials in day-to-day affairs, it is hoped that cities will arrive at innovative solutions to their financial problems.

Arguments against a policy of non-involvement by States center primarily on the need for States to guarantee that their subdivisions will handle their finances in a responsible fashion. Financial irresponsibility in municipalities may endanger the local economy and local citizens and threaten the credit rating and the reputation of other municipalities in the State and the State itself. State regulation and control are needed in some cities, as case studies have shown, in order to protect local officials from the political temptations of lax financial management. Even well-intentioned local officials frequently find it difficult to deny expenditure demands or to resist pressures to use financial gimmicks to balance budgets instead of enacting tax increases. By imposing certain requirements and supervision on local officials, the temptation to use anything other than sound financial practices may thereby be removed.

Limited State Administrative Controls

In contrast to a passive State role, a State agency may be charged with an active but limited responsibility to supervise and control municipal financial management. Under this alternative, uniform forms and procedures for accounting, budgeting, and financial reporting might be required of all municipalities, and the annual financial reports required by municipalities would be reviewed by a responsible State agency to determine the presence of any management deficiencies. Specifically, the State agency might be on the lookout for tell-tale signs like: expenditures that exceed revenues by more than 5 percent; expenditures that have exceeded revenues for two consecutive years with the second year deficiency being larger than the first year; short-term debt outstanding at the end of the fiscal year; interfund loans outstanding at the end of the fiscal year; a substantial increase in accounts payable or unpaid bills; an increase of 1 percent or more in the delinquency rate of current property tax collection; and failure to provide full funding for currently incurred pension liabilities—all factors indicative of potential financial emergency identified earlier in this report. In cases in which the review of financial reports reveals such deficiencies, the State agency would have the powers necessary to require correction in subsequent years.

An argument in favor of this alternative is that although it provides a basis for State supervision and control to insure good financial management in cities, the controls that are exercised are after the fact, and they become operative only when there is a problem at the local level, or when a municipality attempts to violate a State law or regulation. It can be argued that this alternative does not violate home rule because those cities that conduct their affairs in a manner consistent with good financial management principles and State laws will experience no State intervention. This alternative, therefore, provides a positive incentive

for local officials to improve their handling of financial operations. The existence of a State agency involved in municipal affairs also provides local officials with a place to obtain assistance when confronted with financial problems.

Arguments against this alternative are based on the premise that the creation of a State agency with powers to require action by local officials to correct management deficiencies will lead to State involvement in substantive affairs at the local level and may also inject State political considerations into local affairs. State officials may be given an easy opportunity to embarrass local officials for political purposes and because of this gain political power at the expense of local officials.

Complete State Control

The concept of complete control of all aspects of municipal financial management by a State agency developed first in the 1930's when a substantial number of local governments were forced by the Depression to default. Although a number of States instituted complete control as a last resort in cases in which specific cities were experiencing financial emergencies, some States such as New Jersey and West Virginia had such extensive municipal default problems that they instituted a State control system over all municipalities. In a complete control system, State officials begin their scrutiny of local financial affairs with a review of the proposed budgets prior to their adoptions; they have authority to require local officials to make substantive changes in such budgets to avoid a deficit or to improve fiscal management. State officials closely follow the course of local budgets during the year and give approval for any major modifications. At the conclusion of the fiscal year, the municipal finances are audited, and the audit reports are compared to originally adopted budgets. Short- and long-term debt can be incurred only after careful review and approval by a State agency. The review not only determines that the debt meets legal requirements but that it is prudent for the municipalities to undertake such an obligation in view of their present and prospective financial conditions.

The argument for such a control system is that it allows a State to keep municipalities out of trouble and provides ample opportunity for correction of any financial problems before they become serious or chronic. Because of the strict State supervision, local officials are forced to become effective financial managers in order to comply with State requirements. In order to provide the type of supervision required at the State level, the State agency must develop a strong and relatively large professional staff with the capability for assisting local officials.

Although there is little quarrel with the need for such extensive control in cases of actual financial emergency, it can be contended that this type of State control makes effective local administration very difficult because most decisions involving financial matters must be approved at the State level before they can be initiated. It can also be argued that the system places too much emphasis on routine paper work, and that in the hands of inadequately qualified State officials it loses effectiveness and becomes primarily a paper shuffling activity.

Organization of State Agency Responsible for Control of Local Financial Management

The survey of State practices revealed the use of several different types of organization having responsibility for supervision over local financial management; in many cases, two or more agencies within the same State share the responsibility. The duty for reviewing financial reports or compiling statistics from financial reports is commonly located in an independently elected State Auditor or Treasurer's office. Frequently, within the same State, a part of the governor's administration will be charged with responsibility for providing technical assistance, Federal grant coordination, and financial aid to cities. In some States, a local government Commission has responsibility for certain supervisory duties such as approval of bond and note issues by municipalities. Generally, such commissions either are appointed by the governor or consist of State officials serving *ex officio*—most commonly the governor, attorney general, and auditor.

Many of the existing inadequacies in State-municipal financial relationships are traceable to a split responsibility at the State level. The existence of more than one State agency results

in competition for State appropriations and Federal grants, and it results in competition for personnel qualified to work with municipal officials. When it comes to requiring municipalities to take actions that may be politically controversial, however, the separate agencies at the State level may vie with each other to avoid their responsibility. The local officials, who must work with separate agencies, each of which has its own political base, are often caught in the middle. It seems appropriate to suggest that States, as a general rule, designate one agency to have responsibility for all aspects of local financial management.

Numerous alternatives are available to States in organizing for effective control and assistance to municipalities. The most direct approach is to place the responsibility in a State department of community affairs or a State auditor's office. Organizationally, this provides a direct line of responsibility and control and integrates the responsibility for municipal affairs with other activities of State government. Arguments against such an arrangement are that there is no local involvement in the policy aspects of such an operation; no formalized appeal procedure that would guarantee a sympathetic hearing for local officials; and no guarantee that the professional staff will be adequately sensitized to the needs of local communities.

A second alternative is to create a small board composed of State officials, such as the governor, attorney general, and auditor, serving *ex officio*, with a full time professional staff for the board. This approach places responsibility with State officials who should have a direct interest and responsibility for all State-local relationships. It would provide for an appeal mechanism from decisions of the professional staff. Arguments against this alternative are that it would not provide local representation and could inject partisan politics into State-local fiscal relationships. A further problem with such an arrangement could result from State officials being too busy with regular duties to devote the necessary attention to their responsibilities for municipal affairs.

The third alternative would be a bi-level, bi-partisan board appointed by the governor, based on recommendations from associations of local officials and other interest groups. This type of organization would provide for full representation of the various interests and help to coordinate State-local fiscal relationships at the policy level. The arguments against such a board are primarily that it would be outside the regular organization of State government; it could be too large and meet too infrequently to be effective; and, if truly representative, it might suffer from an inability to take strong and decisive actions.

A further alternative would be a small board of professionals with experience in local government finance appointed by the governor. Such a board could hear appeals from professional staff actions without involving the appeals process in partisan politics. It could at the same time act as a board of qualified peers to provide a review of staff decisions. The argument against such a board is that it tends to be too autonomous from the State government and officials might be unable to deal with the political realities of State-local relationships.

Summary

In considering the adoption of a State supervision of municipal financial management, there are several criteria that need to be considered. First, the system adopted should preserve local autonomy to the largest extent possible consistent with the goal of promoting sound financial management in the cities. Second, the system should be flexible enough to promote continued cooperative education and improvement in financial management practices throughout the State. Third, the system should enable State officials to detect symptoms of financial difficulty in cities at the earliest possible stage, and to act promptly to protect the financial position and credit rating of the city and of the State.

Footnotes

[1]Advisory Commission on Intergovernmental Relations, *State-Local Finances*. 1972 edition (Washington, Government Printing Office) Tables 78, 88, 99, 111.

[2]An unpublished Dun and Bradstreet Occasional Paper, dated September 26, 1966.

[3]Royal S. Van de Woestyne, *State Control of Local Finance in Massachusetts* (Cambridge: Harvard University Press, 1935), p. 50.

[4]A. M. Hillhouse, *Municipal Bonds* (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1936), p. 454.

[5]*Finances of Employee Retirement Systems of State and Local Governments in 1970-71*, U.S. Department of Commerce, Social and Economic Statistics Administration, Bureau of the Census, March 1972.

[6]Harry H. Wellington and Ralph K. Winter, Jr., *The Unions and The Cities*, (Washington, D.C.: The Brookings Institution, 1971), pp. 19-20.

[7]Martha W. Griffith, U.S. Representative from the State of Michigan. "Public Pension; Growth and Impact" *The Tax Foundation Tax Review*, XXXIII, No. 1, January 1972.

[8]From an unpublished position paper by the Municipal Finance Study Group, State University of New York at Albany, January 1972.

[9]From a statement by Charles L. Schultze, Director of the Bureau of the Budget, before the Subcommittee on Retirement, Insurance and Health Benefits of the House of Representatives, November 14, 1967, as quoted in the Municipal Finance Study Group unpublished position paper, *op. cit.*

[10]Subcommittee on Fiscal Powers of Local Government. Governor's Special Commission on Local Government, "State Supervision of Local Finance," Lansing, Michigan, October 1971. Portions of this report in greater detail are contained in Appendix C.

[11]Quoted in *Proceedings, National Municipal League, 1899*, p. 124, as cited in Royal S. Van de Woestyne, *State Control of Local Finance in Massachusetts*, (Cambridge: Harvard University Press, 1935), p.89.

[12]Royal S. Van de Woestyne, *op. cit.*, p.89.

[13]From an unpublished paper by Wade S. Smith, entitled *Municipal Financing in the 1970's*, presented to the 29th Annual Conference for Municipal Finance Officers, April 20, 1971.

[14]Chapter 88, C.R.S. 1963, as Amended. Article 6, Local Government Audit Law, Section 5.

[15]See S. 3140, a Bill to Improve the Financial Management of Federal Assistance Programs, to Facilitate the Consolidation of Such Programs, and for Other Purposes, also known as the Intergovernmental Cooperation Act of 1972. See also ACIR Recommendation #D-14 in A Commission Report, *Fiscal Balance in the American Federal System*, p. xxiv, October 1967.

chapter 5

REMEDIES IN THE CASE OF SEVERE FINANCIAL EMERGENCY

The remedies available to deal with cases of severe *financial* emergency, if and to the extent that they occur, are not solely matters of management but include legislation and policies at both the State and national level. The major focus of this chapter is an assessment of Federal and State remedies now in force to help a local government unit deal with severe financial emergency. Where deficiencies in current remedies appear to exist, new proposals are suggested for consideration.

The term severe financial emergency implies that the failure to meet financial obligations is not temporary or technical and that the local government unit is in an advanced stage of a financial emergency. Most cases of severe financial emergency have been defaults on bonded indebtedness. For purpose of this study, however, continued inability to meet wage payments, payments to suppliers and pension benefits also constitute evidence of a severe financial emergency.

DEVELOPMENT OF EXISTING REMEDIES

The plight of the relatively large number of defaulting municipal units in the early 1930's, when approximately 4,770 municipal units defaulted, was made worse by the lack of any orderly legal procedure or meaningful assistance to effect readjustments of the debts. When a municipality defaulted, it was necessary to obtain the consent of all its creditors to adjust or refund the indebtedness. No laws, either State or Federal,* existed to compel a minority creditor to agree to any plan of adjustment or refinancing even if the debtor and most of the creditors had agreed to such a plan. The complications that resulted from this lack of legislation permitting reasonable financial adjustments were described as follows:

*The only mention of local government units in Federal bankruptcy legislation prior to the 1930's was in the Amendments of 1910 (36. Stat. 838, Section 4, 1910), which expressly excluded municipalities from the bankruptcy procedures set up by Federal law.

It was almost impossible to obtain the consent of all creditors to any plan. The lack of ary legal power of conpulsion encouraged the practice of individuals or groups of buying up the depreciated bonds of a defaulting community and attempting by the veto of any plan of debt adjustment to realize substantial profits. The difficulty in locating all bondholders also constituted a serious hindrance to obtaining the consent of all creditors.

Under the law, moreover, any holder of the bonds of a defaulting community or taxing unit had the right to mandamus the unit to levy taxes for the purpose of paying the debt in full owing to that creditor. Such mandamus proceedings were, and are, decided without reference to the rights of the other bondholders or to the debt problem in its entirety. They merely determine the rights between the plaintiff creditor and the debtor. Such suits tended to depress property values in the community and to cause further shrinkage in its revenues. A municipal default often then led to a long series of acrimonious lawsuits injurious to the community and unproductive in furnishing funds to pay off the creditors.[1]

Few States gave any form of assistance to their distressed municipal units.* The lack of helpful State agencies or organizations in most States made some crisis situations worse than they would have been if capable assistance had been available.

By the mid-1930's, the number of defaults increased enough to become a national problem. Under crisis conditions, progress was made in developing remedies to assist defaulting municipal units in two areas. First, several States (primarily States in which default problems were widespread) passed legislation or created administrative bodies to assist troubled local government units.** Second, Congress passed the Summer-Wilcox bill, the Municipal Bankruptcy Act, in 1934 to provide a means of composing the debts of financially embarrassed local government units.

State administrative bodies that were established proved generally effective in assisting troubled municipal units in their States. Several years elapsed, however, before Federal Municipal Bankruptcy legislation provided much meaningful relief. In May 1936, with the majority of the 89 filed petitions still pending, the U.S. Supreme Court by a 5 to 4 decision held the Municipal Bankruptcy Act unconstitutional on grounds that it interfered with the sovereign powers of the State.[2]

In 1937, Congress passed an amended statute with the same primary purpose and substance. Among other matters the legislation eliminated counties from the Summers-Wilcox bill and stressed the voluntary nature of the bankruptcy proceedings. The amended act survived a constitutional test in April 1938.[3] The Municipal Bankruptcy Act was further amended to include counties in 1940. In 1946, the act was again amended to cover revenue bonds and authorities and to provide for a preliminary stay of proceedings against a local unit prior to the filing of a bankruptcy petition. At this time the Act was also made a permanent part (Chapter IX) of the U.S. Bankruptcy Laws.

CURRENT ALTERNATIVES

Few legislative thrusts to deal with municipal bankruptcy have been made since the 1930's. The remedies made available then are currently available. Thus, in the event of severe financial emergency, say a default, there may be no direct action on the part of the defaulting municipal unit; direct agreements between the municipal unit and its creditors; and agreements reviewed, approved, and supervised by courts or administrative bodies. Because there are few cases of severe financial emergency at the present time, it would be appropriate to propose improvements in legal methods of dealing with severe local financial emergency. The revision of laws dealing with municipal financial emergency are more appropriately updated when logic rather than expediency can dominate the deliberations.

*Examples of State assistance prior to 1930 included the West Virginia Sinking Fund Commission and legislation that permitted the Massachusetts legislature to establish emergency boards to supervise troubled municipal units. The amount of potential State assistance was very limited.

**For example, North Carolina formed a Local Government Commission that had the responsibility of issuing all refunding and new indebtedness, and New Jersey created a Local Government Board with the power to exercise control over troubled individual municipalities equivalent to a receivership.

No Direct Action

Most defaults on municipal debt prior to the 1929 depression period and many of the defaults during that period appear to have been settled with little or no direct action on the part of the defaulting municipal unit. The creditors seemed to accept the fact that the municipal unit was receiving tax revenues and cutting expenses as much as possible in the particular situation. The terms of the indebtedness were usually left the same on the assumption that payment would be made as soon as possible. This "let nature take its course" approach seems to have worked reasonably well for temporary defaults during the 1929 depression period and earlier periods and even for temporary or technical defaults in recent years.

The approach loses its effectiveness if a municipal unit remains in default very long. Creditors begin to question the municipality's financial efforts and to worry about their position relative to other creditors. In the current environment, it is difficult to think that unionized city employees would accept scrip for wages, lower wages, or reduced pension benefits. Furthermore, as time passes without the municipality solving its problem, it would generally seem more useful to the troubled municipality's obligations restructured in a way that would permit them to be paid when due. The "let nature take its course" approach does not seem to be an acceptable remedy for severe fiscal crises that last longer than several months.

Direct Agreements with Creditors

A second potential alternative for financially troubled local units is direct agreement with creditors, an alternative used fairly frequently in default situations. Voluntary agreements on recognized extensions of maturity dates, refunding issues, and even some scaling down of obligations between the municipal debtor and all its creditors would seem to be fast, efficient, and perhaps more equitable than forced agreements.

This remedy may be sound, economical, and equitable when claims are held by a reasonably small group of creditors. Problems may arise when there is only one or a very few creditors, or when there are many creditors, often with diverse interests. When there is only one or a very few creditors, the creditors may unilaterally coerce a solution for the municipal unit. When creditors are numerous, it may be impossible to find them all much less get them to agree on a settlement. Confusing and injurious lawsuits are always a possibility until every creditor agrees to the settlement.

Direct agreements with creditor may be the most efficient remedy in cases of temporary or technical financial emergencies. At some point in a continuing severe financial emergency, however, an agency of the State government or the courts should have the power to force the local government unit to seek an administered remedy. The exercise of such power is called for because (1) severe local financial crisis in a State threatens the credit of both the State and other municipalities within the State; and (2) the unit itself may be penalized (with higher interest) because of a lower credit rating and its obligations declared ineligible for purchase by potential institutional investors. Furthermore, it would seem that such intervention is not an undue deprivation of home rule—a privilege to be earned through reasonable financial management.

Agreements Undergoing State Review, Approval, and Supervision

State courts or administrative bodies may require, or municipalities may voluntary accept, varying degrees of review, approval, and/or supervision. A recent study revealed that the statutes of 15 States provide for a State receiver or State agency to act as receiver when a local government unit defaults on its financial obligations.[4] Some of these States and several additional States have statutes granting State courts varying degrees of responsibility over any municipal unit that experiences a financial collapse. Roughly 30 States lack statutes that deal specifically with the responsibilities of the State if a municipal unit is unable to meet its financial obligations. The following paragraphs demonstrate the diversity among State programs.*

Maine provides by statute a Board of Emer-

*Descriptive material on Maine, Massachusetts and New Jersey is drawn from the Michigan Report on State Supervision of Local Finance, which appears in Appendix C.

gency Municipal Finance, the purpose of which is: "to enable the municipalities that have fallen into financial difficulties to receive assistance from the State and to be reestablished on a sound financial basis..." When a municipality falls 18 months in arrears in payments to the State, defaults on any bond issue or payment of interest due thereon, or refuses or neglects to pay teacher and other salaries due, the board is authorized to cause an audit to be made of the financial affairs of the community. The board is empowered to take over and regulate the administration of the community when an audit reveals, in the judgment of the board, that financial affairs are in such condition that the interest of the State and public necessity require that the community financial affairs be taken over. The board is composed of the State commissioner of finance and administration, the State treasurer, and the State tax assessor. The board can appoint one commissioner to manage the affairs of local units with population under 5,000 and three commissioners to manage affairs of larger local units. The appointed commissioner or commissioners have supervision over the financial affairs of such local units and no appropriations can be made and no debt incurred except with their approval, upon their recommendation, or upon their requisition in writing. In addition, they may vacate local offices and appoint successors, may make temporary loans, and may (with board approval) offer compromise settlements in behalf of the local units to creditors. The commissioner(s) retain power until all debts are paid and, in the opinion of the board, the municipality's financial affairs can be resumed under local control.[5]

Massachusetts has created special boards of finance from time to time to have supervision over the financial affairs of given cities experiencing financial difficulties. The Fall River receivership in the 1930's (described earlier) is an example of a board given far-reaching powers to deal with an emergency. The governor appointed three citizens, one of whom was a resident of the city. The board was empowered to supervise the financial affairs of the city, including the funding of floating debt, the incurrence of debt and expenditures, and the administration of tax collection, fund custody, and property tax assessment. State control ceased with the final retirement of defaulted obligations.

New Jersey empowers a Local Government Board within the Division of Local Finance of the State Department of Community Affairs to exercise control equivalent to a receivership over municipalities. The New Jersey provisions make State control conditional upon tests for the existence of one or more of five conditions in the municipality: (1) municipal default of debt principal or interest; (2) overdue payments of taxes to the State and other agencies; (3) a budget deficit in excess of 5 percent of the tax levy for two years; (4) excessive floating debt, measured as a percentage of the budget; and, (5) excessive tax delinquency, measured as a percentage of the taxes levied.

When the director of the Division of Local Finance finds in the course of his review and approval of a budget, review of audit reports, or review of other special reports filed by a local unit that any of the five conditions noted above exist in a municipality, he must give immediate notice to the local community that the question of applying the State control statute will be placed before the Local Finance Board.

If the Local Government Board finds, after a public hearing, that the statutorily defined conditions do exist in the municipality, the board determines by resolution that the State control statute is in effect within the municipality. Under the statute, the board is empowered to use a variety of measures to correct the financial condition, depending upon the nature of the circumstances. The statute is to be "construed liberally to give effect to its intent that unsound financial conditions in municipalities shall be forestalled and corrected."

The board may, for example, promulgate rules and regulations with respect to various aspects of financial administration, such as budget preparation and execution, and revenue, debt, and assessment administration. It may appoint a local administrator to supervise the liquidation of debt, negotiate contracts with other local units for more economical provision of services, and, when directed by the board, to perform the duties of the local city comptroller.[6]

North Carolina established the Local Government Commission in 1931 to assist local government units in or near severe financial crisis. The Commission approves refinancing plans and all general obligation bonds or notes. Within a decade, it was able to assist in clearing up most of the default situation in the State, which at their peak included 62 counties, 152 towns, and 200 districts in default. This assistance to local units in refinancing represented most of the Commission's work during its early years, but the success of these efforts allowed it to move smoothly into fulfilling its responsibilities of overseeing financial reports and approving and marketing local general obligation bonds. Although no municipal units in North Carolina have defaulted on their general obligations in recent years, the Commission has sufficient power to act even in the event a municipal unit is near severe financial crisis. To a financially weak North Carolina municipality that had been forced to issue refunding bond anticipation notes the Commission wrote a letter directing:

1. That provision be made in the budget for fiscal year 1972-1973 for the payment in full of the principal and interest on these notes.
2. That appropriations be made in the forthcoming budget to cover any deficits which may be estimated at year end.
3. That immediately after the end of the current fiscal year, the budget for fiscal year 1972-1973 be amended by Council action to provide for the actual deficits, if any, in excess of those already anticipated.
4. That provisions be made in the forthcoming year for close budgetary control over spending with no expenditures being made except from the proper line item appropriations. And that budgetary transfers of appropriations be made only after Council approval. G.S. 160-411.1 provide that no monies can be paid out unless expenditures have been provided for by either a budget appropriation or a bond issue, and that every purchase order or warrant, check or disbursement voucher shall contain a certificate that such provision has been made.
5. That no capital outlay expenditures be made from contingency appropriations except in a serious emergency situation, and then only upon specific authorization and approval of the City Council.

West Virginia empowered its Sinking Fund Commission to collect interest and principal payments for general obligation bondholders of West Virginia municipalities in 1920. The Commission typically collects interest and principal payments monthly in order to meet obligations as they fall due. In the few cases in which payments by localities have temporarily fallen short of Commission outlays, the Commission has paid the bondholders from State funds. A municipality is promptly reminded when it misses a monthly payment, and if several payments are missed, the Commission starts remedial action. The lack of payment is an excellent early warning device to alert the Commission to potential financial trouble in the municipality. Actions available to the Commission include the threats to: withhold tax funds that the State has collected for municipal units; disapprove of new debt local issues; and to notify the Local Governments Division which approves local budgets and financial reports. The Local Governments Division can take other remedial action such as require monthly budgets or force the unit to increase taxes or cut expenditures. In recent years, the Local Governments Division has had successful remedial financing programs for two counties and one city. The West Virginia program might be improved by clarifying the authority of the two involved agencies and strengthening their remedial powers in case of nonpayment. The Sinking Fund Commission might also be given the power to build up a reserve fund to meet temporary payment deficiencies by municipal units.

Evaluation

The effectiveness of these and other State programs designed to assist municipal units in or near severe financial crisis varies widely. Nevertheless, in States with court or administrative assistance, the performance of municipal units under stress seems considerably better than those in States in which no provisions have been made for State review, approval, or

supervision. For example, the local Government Commission of North Carolina did an excellent job of assisting in the rehabilitation of its defaulting municipal units in the 1930's. More recently, the State of Michigan provided meaningful assistance to financially troubled Hamtramck (described in Chapter 3).

The disadvantages of assistance by State courts or administrative bodies include a lack of clarity in some States as to when the State has responsibility for assistance and questions about the State's legal jurisdiction over creditors from other States.

Municipal units in or approaching severe fiscal crisis seldom argue that their rights of home rule have been infringed where State assistance, or even supervision, is offered. In fact, municipal units have often sought assistance in States where it is available. Harlan E. Boyles, secretary of the North Carolina Local Government Commission, stated "... (in the 1930's) our role was actually sought by local officials" and "... the success of our efforts achieved the respect of local officials and allowed us to move smoothly into fulfilling the other responsibilities established for us in 1931."[7] James F. Marling, director of the Michigan Municipal Finance Commission, indicated that since the Hamtramck episode, they have seen a much greater interest by municipalities in seeking advice and counsel from the Commission. Furthermore, he indicated that presentations to the Commission are much better prepared and the municipalities seem to be generally more concerned about handling their financial affairs than they were prior to the crisis in Hamtramck.

In view of the favorable results that can occur when States are actively involved in municipal financial crisis, it is appropriate to suggest that all States should have laws providing for a State agency that will be responsible for at least the supervision of local government units in times of severe financial-emergency. For administrative ease it would be best to delegate the responsibility for supervision in time of emergency to the agency that reviews local budgets and financial reports. While there is considerable diversity of organization among successful State supervisory agencies, the authority for supervision by an agency of the State in the case of severe financial emergency in a local government unit should be clearly established.

The authority of a State agency to act in case of municipal financial emergency must be accompanied by a statement outlining the conditions under which the State will have the power to assume supervision over the financial affairs of a local government. The municipal financial conditions that trigger State action should include:

a. A default in the payment of principal or interest on bonded debt or other obligations.
b. Municipal contributions for social security and pensions, or municipal payments of withholding taxes or other taxes due the State and other jurisdictions that remain unpaid for 30 days or more.
c. Salaries due employees or pension benefits due retirees that have not been paid for two or more consecutive pay periods.
d. Floating debt in the form of accounts payable and other unpaid obligations that exceeds 10 percent of the total appropriations of the year just ended, providing there are no reserves for the payment of such obligations.

Following establishment of conditions necessitating State supervision, the types of supervisory actions that the State has the authority to take should be clearly specified. In order to restore a municipality to fiscal health the State agency should be empowered:

a. To make an analysis of all factors and circumstances contributing to the financial conditions of the local unit and to recommend steps to be taken to correct such conditions.
b. To review and approve the budget of the local unit and to limit the total amount of appropriations.
c. To require and approve a plan of liquidating current debt.
d. To require and prescribe the form of special reports to be made by finance officer or governing body to keep the State agency continually informed of the financial affairs of the local unit.
e. To have access to all records and books of

account of the local unit and to require the attendance of witnesses, the production of books, papers, contracts and other documents relating to any matter within the scope of the local unit.

f. To approve or disapprove any appropriation, contract, expenditure, or loan, the creation of any new position, elimination of any position other than elective ones, or the filling of any vacancy in a permanent position by any appointing authority.
g. To approve payrolls or other claims against the local units prior to payment.
h. To act as an agent of the local unit in collective bargaining with representatives or employees and to approve any agreement prior to its going into effect.
i. To appoint a local administrator of finance to exercise the powers of the State agency and to perform duties under the general supervision of the agency.
j. To employ experts, counsel, and other assistance and to incur such other expenses as it may deem necessary.
k. To require compliance with orders of the State agency by court action if necessary.
l. To provide a temporary cash loan or the guarantee of a loan from private sources sufficient to the immediate needs of the city.

The authority to impose such restraints should continue in effect until a full fiscal year has been completed without any of the conditions being present that originally authorized the imposition of such restraints.

The State as the sovereign power and creator of local government must bear the major responsibility for technical assistance, financial controls, and overseeing adjustments in cases of severe financial emergency of its municipal units. The differing pattern of crisis assistance and supervision in North Carolina, West Virginia, Maine, Massachusetts, and New Jersey demonstrates that the success of the program of intervention does not depend on the adoption of a particular administrative organization.

THE FEDERAL ROLE

The only Federal statute designed to assist a municipal unit in severe financial crisis is the Municipal Section (Chapter IX) in the Federal Bankruptcy Laws.* The basic purpose of Chapter IX is to provide a means whereby a plan for municipal financial adjustment can be effected with an approval of the majority but not necessarily all creditors. The financial adjustment is attained by the filing of a voluntary petition for bankruptcy by an eligible local government unit. A plan of composition (financial adjustment), accepted by creditors owning at least 51 percent of the securities affected by the plan, and a list of all creditors must be filed with the petition. Upon the filing of the petition, an order is entered by the judges either approving it or dismissing it. If the petition is approved as filed, the resources of the debtor come within the conclusive jurisdiction of the bankruptcy court, and an order is entered fixing a time and place for a hearing. The court makes provisions for giving notice to creditors, for the filing of an answer by any objecting creditor, and for a hearing upon any points at issue. After appropriate hearings, the court may confirm a plan of composition that has been accepted by the holders of at least two-thirds of the aggregate amount of all claims of all creditors affected by such a plan. The courts have the authority to continue jurisdiction after confirmation but have seldom exercised this authority.

On the basis of the list of cases filed and their disposition, many of the cases concluded in the last two decades have been concluded with little or no permanent losses to creditors. *(See Tables 5-1 and 5-2.)* In spite of the expansion of the bankruptcy laws in 1946 to include revenue bonds and authorities, the number of bankruptcy cases filed has been very small since the early 1950's. About half of the cases filed since 1954 pertained to revenue bonds or authorities. Only two of the cases filed since 1954 have been on the general indebtedness of municipal units in which the extreme financial emergency was of post World War II origin. These two cities were Benavides, Texas, a city with a population slightly above 2,000 and Medley, Florida, a city of approximately 350 people. Benavides defaulted on its general obligations and revenue bonds in the early 1950's.

*The statute appears in Appendix F.

Table 5-1

Summary of the Results of Cases Filed Under Chapter IX of the Federal Bankruptcy Laws, 1938-1972

Fiscal Year	Cases Filed	Cases Dismissed	Cases Concluded: No. of Cases	Cases Concluded: Admitted Debts	Cases Concluded: Amount Paid or to be Paid as Extended	Cases Concluded: Admitted Losses
1938	35	0	2	$ 67,675	$ 67,675	$ 0
1939	71	0	17	6,587,012	3,924,149	2,662,863
1940	104	7	22	15,500,000	6,674,000	8,826,000
1941	19	8	37	28,466,000	16,332,000	12,134,000
1942	43	3	46	33,704,000	24,458,000	9,246,000
1943	13	23	40	26,633,000	16,032,000	10,601,000
1944	5	2	18	18,014,000	11,457,000	6,557,000
1945	8	3	14	39,816,000	27,185,000	12,631,000
1946	7	1	8	13,086,555	9,594,984	3,491,571
1947	7	4	8	4,651,168	2,715,234	1,935,934
1948	7	1	12	2,464,215	1,632,987	831,228
1949	2	0	2	224,361	136,525	87,836
1950	4	5	5	1,253,183	464,094	789,089
1951	3	0	3	1,308,687	582,868	725,819
1952	15	1	17	10,043,648	8,424,662	1,618,986
1953	0	2	2	2,183,413	1,163,615	1,019,798
1954	2	14	4	934,733	353,562	581,171
1955	1	0	0	—	—	—
1956	1	1	1	639,095	211,300	427,795
1957	0	0	2	2,171,448	1,629,448	542,000
1958	2	0	1	16,124	16,124	0
1959	3	0	3	2,077,382	544,668	1,532,714
1960	0	0	2	306,500	148,500	158,000
1961	0	0	0	—	—	—
1962	1	1	3	972,642	891,701	80,941
1963	0	0	0	—	—	—
1964	0	2	0	—	—	—
1965	2	0	0	—	—	—
1966	2	0	0	—	—	—
1967	1	0	1	2,599,700	2,599,700	0
1968	2[a]	0	1[a]	0[a]	0[a]	—
1969	0	1	0	—	—	—
1970	0	0	0	—	—	—
1971	2	0	1	3,280,000	3,280,000	0
1972	0	0	1	230,000	95,000	135,000
Total	362[b]	79	273[b]	$217,230,541	$140,614,796	$76,615,745

Source: ACIR staff compilation based on data provided by the Administrative Office of the U.S. Courts.

[a]Reopened case (final decree same year) to clear up outstanding issue; no additional adjustment (debt amounts included in 1942 figures).

[b]Ten cases were still open in 1972 (five of these are cases opened prior to 1953).

Medley was unable to meet its financial obligations in the mid-1960's.

Medley is a unique case of municipal bankruptcy. Whereas bankruptcy cases usually deal with bonded indebtedness, the plan of composition for Medley specifically excluded the city's general obligations, revenue bonds, and a mortgage. As early as 1965, Medley found itself unable to meet bills, many of which were associated with expenditures on an unsuccessful stone-quarrying operation. Meanwhile, the city continued to meet all payments on its bonded indebtedness of approximately $850,000. By 1968, the city was involved in numerous judgments and mandamus writs with creditors and decided to seek relief with a plan of composition for its nonbonded indebtedness under Chapter IX. Creditors holding over two-thirds of the nearly $700,000 of nonbonded indebtedness, and the courts, were willing to approve a plan of composition extending repayment of Medley's indebtedness by up to 10 years (with interest of 6 percent on the unpaid balance) and leaving the total amount of the bonded in-

Table 5-2

Cases Filed, Closed, Dismissed, or Pending under Chapter IX of the Federal Bankruptcy Laws Since 1954

Fiscal Year Filed	Fiscal Year Closed or Dismissed	Name of Debtor	Court District	Docket Number
1938	*	Oreville-Wyandotte	N. California	8403
1938	*	Fort Lee (borough)	New Jersey	28612
1939	*	San Joaquin Irrigation District	N. California	8204
1943	1962	Wanchula (city)	M. Florida	3266
1946	*	Tule Irrigation District	N. California	10749
1946	1964	Webster (city)	M. Florida	4980
1947	1964	Baldwin Drainage District	M. Florida	4910
1947	1962	Ideal Farm Drainage District	M. Florida	3298
1947	1958	Skiatook (town)	N. Oklahoma	5602
1948	1969	Center Hill (city)	M. Florida	4934
1950	1957	Summer Lake Irrigation District	Oregon	30831
1951	*	San Louis Obispo Acquisition & Irrigation District	S. California	51701
1952	1957	Highland Glades Drainage District	S. Florida	2700
1954	1956	New Smyrna Deland Drainage District	M. Florida	5055
1955	1962	Peau Creek Drainage District	S. Florida	3544
1956	1956	Walnut Cove (town)	W.N. Carolina	1933
1958	1959	Benavides (city)	S. Texas	608
1958	1959	Lake Lure (town)	W.N. Carolina	1206
1959	1959	Del Norte Irrigation District	Colorado	21942
1959	1960	Talco (city)	E. Texas	487
1959	1960	Earlsboro (town)	W. Oklahoma	11353
1962	1962	Smith Township Municipal Authority	W. Pennsylvania	61-295
1965	*	York County Natural Gas Authority	S. Carolina	2075
1965	*	Lancaster County Natural Gas Authority	S. Carolina	2079
1966	1967	Jefferson & Cocke County Public Utility District	E. Tennessee	7721
1966	*	Chester County Natural Gas Authority	S. Carolina	66-42
1967	1971	Powell-Clinch Utility District	E. Tennessee	24007
1968	*	Medley (city)	S. Florida	68-236
1968	1968	Manatee (city)	M. Florida	3116
1971	1972	Saluda (city)	W. N. Carolina	1340
1971	*	Ranger (city)	N. Texas	204

*Pending at the close of fiscal 1972.

Source: ACIR staff compilation based on data provided by the Administrative Office of the U.S. Courts.

debtedness unaffected. From Medley's experience it may be inferred that: (1) plans of composition for selected types of indebtedness are acceptable; and (2) holders of bonded indebtedness have a preferred position over other creditors. The plan was *not* challenged and thus remains a single and untested precedent. Because this case is the only one involving general indebtedness in the 1960's and because of its unique nature, the plan of composition is included as Appendix G of this study.

The tiny number of cases in recent years results from both the small numbers of municipal units in severe fiscal crisis during the post-World War II period and the use of methods other than bankruptcy to redeem default situations that did occur. The minimal number of Federal municipal bankruptcy proceedings does not attest to the effectiveness of Chapter IX. It may be assumed that the existence of Chapter IX has sufficed to induce minority creditors of many defaulting communities to accede to the composition (financial adjust-

ment) plans agreed to by the majority without resorting to the Federal courts. There are, however, at least five areas of concern pertaining to Chapter IX that reduce its use (and its effectiveness when used).

The term bankruptcy is really a misnomer for Chapter IX proceedings and may deter use of such proceedings. Chapter IX proceedings result in a Federal-court-supervised voluntary settlement between the debtor municipality and a majority of its creditors. It is not feasible for a municipal unit to liquidate its assets totally and finally in order to satisfy its creditors, which is the ultimate purpose of most other bankruptcy proceedings. One of the primary purposes of Chapter IX is to allow the municipal unit to continue operating by adjustment or refinancing of creditor claims, with as little (if any) loss to creditors as possible. Clearly, the so-called municipal bankruptcy differs markedly from personal or business bankruptcy. A more accurate title and public education about the purpose of municipal bankruptcy proceedings should help eliminate some of the hesitation on the part of most municipal units to use Chapter IX. For example, Lehman states "... the most important reason for the relatively little use made of the (Municipal Bankruptcy) Act is the injurious effect on future credit which may result from the filing of a (bankruptcy) petition."[8] An understanding that the use of the Act is really a financial adjustment on the part of the municipal unit and the majority of its creditors should help allay some of the fears of a long-term, additional injurious effect on municipal credit.

Neither law nor precedent has established fully whether a municipality has to obtain the consent of a State government agency before it files a Chapter IX petition. The 1934 act (which was declared unconstitutional) required approval by the State. Present law contains no requirement for State approval. Most court decisions seem to indicate that State consent must be secured where State law affirmatively requires consent by a particular agency before the municipality is authorized to obtain relief, but that the absence of a State's express consent if not required by State law or agency will usually not nullify application of Chapter IX. Some decisions have held that Chapter IX proceedings may not commence if a State has refused to consent to the proceedings.[9] Greater clarity on the issue of State consent seems desirable.

The proportion of creditor approval required for acceptance of a plan of composition under Chapter IX can cause problems if there are one or two very large creditors* or if there are a large number of creditors. The plan of composition must be approved by creditors owning at least 51 percent of the amount of the allowed indebtedness. And before final confirmation under Chapter IX, creditors owning at least two-thirds of the amount of the allowed indebtedness must approve. Many municipalities would have difficulty at the present time locating their creditors. Perhaps more municipal units and creditors would make use of Chapter IX if these requirements were eased. It would also seem wise to provide the opportunity for either the municipal unit or a significant number of creditors to file under Chapter IX without prior approval of the other party.

Chapter IX now calls for the determination of affected creditors and the amount of their claims prior to the approval of a filing. The requirement creates uncertainty. Bondholders are obvious creditors but Chapter IX defines a creditor more generally as one affected by a composition as the holder of a security or securities whose rights are proposed to be adjusted or modified by the consumation of a composition agreement. It also states that creditors do not have to document evidence of indebtedness. Court decisions have held that Chapter IX proceedings may encompass creditors who have not yet been adjudicated as well as those who hold bonds, notes, and judgments.[10] The establishment of current and future pension fund claims of municipal employees represents the type of difficulty problem that may be encountered in determining affected creditors and the amount of their claims.

Uncertainty surrounds Chapter IX with regard to the responsibility of the court or its appointed agent after the confirmation of the

*For example, the town of Saluda, North Carolina, defaulted on its bonded indebtedness in the 1930's, but was unable to file under Chapter IX for many years because one bondholder who held more than half the bonds refused to let the town file. Little progress was made until the bondholder finally decided to set his affairs in order. The case was finally filed in 1971 and settled in 1972.

plan of composition. The court or court-appointed bodies are permitted by law to take jurisdiction over the municipal unit to ascertain that the plan of composition is effectively administered. This jurisdiction has been utilized only a few times with the court designating existing State agencies or temporarily created boards as administrators.* Chapter IX itself does not attempt to set up the mechanism for supervision over the debtor after a plan of composition is reached. It does not provide guidance or supervision to keep the unit from further default or to put the financially troubled municipal unit on a sound economic basis.**

Courts, particularly the Federal courts, are not well equipped to render financial advisory service to a troubled municipal unit. If guidance or supervision is needed to put a municipality on a sound economic basis, the courts should recognize that a State agency or court-appointed commission is likely to be better qualified to render financial management assistance.

Stand-by Federal responsibilities in cases of severe municipal fiscal crisis can be justified on two counts; (1) inadequate response to municipal financial emergency on the part of a State; and (2) the need to provide an unbiased authority who will effect municipal financial adjustment agreed to by a substantial majority of the municipalities' creditors. Chapter IX of the Federal Bankruptcy Laws, with some modification, is an appropriate vehicle for providing the requisite Federal government involvement.

Chapter IX must remain a source in cases of municipal bankruptcy. It serves a useful purpose when a troubled municipal unit, its creditors, and the State fail to act prudently and by its very existence encourages solutions short of bankruptcy proceedings.

Chapter IX is currently being reviewed by the Commission on Bankruptcy Laws, and the following suggestions are offered to make Chapter IX more accessible to municipalities, creditors, and States (which hopefully would encourage the affected parties to reach agreements outside the Federal courts), and more effective when it is used.

1. Wherever possible, the term municipal bankruptcy should be replaced by municipal financial adjustment.
2. Definite, clear rules should be established to assist the courts and the involved parties in determining the affected creditors and the amounts of their claims.
3. Immediately after filing, the municipal unit and its paying agent should turn over a list of the names, addresses, and estimated amount of claims of all its known creditors to the court.
4. The requirement for approval of the plan of composition by creditors before voluntary filings should be reduced from at least 51 percent to at least one-third of the amount of the allowed indebtedness.
5. State consent for filing should be required in voluntary filings if State law affirmatively requires consent by a particular State agency. State consent for filing should not be required in other situations.
6. Involuntary filing should be permitted under certain conditions. If there is evidence that either the municipal unit, creditors representing at least fifty-one percent of the alleged indebtedness, or an appropriate State agency have seriously tried to gain the approval of appropriate parties for filing of a reasonable plan of composition for over six months, the courts should permit the case to be filed by the municipal unit, the creditors, or the appropriate State agency.
7. In court-permitted involuntary filings, the State should be considered a party of

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*One unusual case of continued supervision that proved successful both for the municipality and its creditors was the composition of the indebtedness of the Borough of Fort Lee, New Jersey in 1938. A plan of composition was approved whereby creditors received redeemable refunding bonds maturing in 1979 equal to the face value of their claims plus any interest in arrears. Refunding bonds were to be paid from the proceeds of the sale of more than 1,600 parcels of unimproved property. A three-member board of liquidation was appointed for a term of 15 years or until all the assets pledged were liquidated to render final accounting to the U.S. District Court of New Jersey. All the assets have been sold and all the bonds redeemed except for a small number for which the bondholder cannot be found. For a longer description, see "Unique Tale of Municipal Default and Its Remedy," *The Daily Bond Buyer*, CLXXII, No. 20765, January 1960.

**Ranger, Texas, typifies the bankruptcy without meaningful supervision. Ranger defaulted in the early 1930's and has now undergone three forced refundings because the courts have never been able to force a changing cast of elected officials to comply with voluntarily accepted settlements of the past. The case was refiled under Chapter IX again in 1971 and is currently pending.

interest in the proceedings and the State Attorney General should have the right to intervene.

8. In court-permitted involuntary filings, a court-approved plan of composition should be presented to the municipal unit, its creditors, and an appropriate State representative. Representatives of the involved parties should have 90 days to accept the court's plan or to present a viable alternative plan.
9. The requirement for final confirmation of the plan of composition by creditors should remain at the figure of at least two-thirds of the amount of allowed indebtedness under voluntary and involuntary proceedings.
10. The court should require continuous supervision of the plan of composition by the appropriate State agency or by a court-appointed board if State law does not establish such an agency with the added requirement that the supervising body file a written progress report annually with the court.
11. The following procedural changes seem desirable:
    a. Official forms should be adopted for Chapter IX—the private bankruptcy forms currently used are inappropriate.
    b. Specific procedures for the exchange of securities at closing should be established.
    c. The disbursing agent should be clearly determined.
    d. A bar date should be incorporated in the act so that the problem of unredeemed old bonds can be resolved and the disbursing agent can be relieved of responsibility while waiting for the old bonds to come in.*

*These procedural changes were developed by Thomas A. Beitelman, Jr., of the Administrative Office of the U.S. Courts from a survey questionnaire submitted to judges and attorneys associated with recent Chapter IX cases.

SUMMARY AND CONCLUSIONS

There are few municipalities currently in or nearing a severe fiscal crisis. This relatively trouble-free period is an excellent time to review and revise the present remedies for dealing with severe fiscal crises. The State should have primary responsibility if the municipal unit cannot work out an acceptable agreement with all its creditors. Each State should have laws providing for a State agency that will be responsible for the supervision of local government units in severe financial emergency. Possible inadequate response to this responsibility in some States and the need to provide an unbiased authority under which a municipal financial adjustment can be effected with approval of a substantial majority of a troubled unit's creditors justify stand-by Federal authority to deal with severe municipal fiscal crises. Chapter IX of the Federal Bankruptcy Laws will perform this needed task if it is revised to improve its effectiveness.

Footnotes

[1]Henry W. Lehman, "The Federal Municipal Bankruptcy Act," *The Journal of Finance*, V, No. 3, September 1950, p. 242.

[2]*Ashton v. Cameron County Water Improvement District No. 1*, 298 U.S. 513 (1936).

[3]*United States v. Bekins et. al.*, 304 U.S. 27 (1938)

[4]Latheef N. Ahmed, "State Department of Urban Affairs: Some Comparative Reflections" *Midwest Review of Public Administration*, I, No. 2, August 1967, pp. 108-18.

[5]Maine Revised Statutes Annotated, 30-5301 ff.

[6]New Jersey Statutes, 52; 27 BB-54-98.

[7]Printed speech before Municipal Finance Officers Association Conference in Denver on May 31, 1971.

[8]Lehman, *op. cit.*

[9]For examples, see *United States v. Bekins et. al.*, 304 U.S. 27 (1938); *Faitoute Iron & Steel Co. v. City of Ashbury Park*, 316 U.S. 502 (1942); *Matter of South Beardstown Drainage & Levee Dist.*, 125F. (2d) 13 (1941); *Roberts v. Broward County*, 112F. (2d) 459 (1940); and *Ware v. R.E. Crummer and Co.*, 128F. (2d) 110 (1942)

[10]*Poinsett Lumber and Mfg. Co. v. Drainage District No. 7 of Poinsett County*, 119F (2d) 270 (1941).

Appendix A

STATISTICAL RELATIONSHIPS BETWEEN BORROWER CHARACTERISTICS AND PAYMENT PERFORMANCE IN SELECTED MICHIGAN CITIES AND COUNTIES IN THE 1930'S

The following statistical results are presented to support the conclusions made in Chapter 2. The two statistical techniques used were multiple linear discriminant analysis for two groups and multiple linear regression analysis. Multiple discriminant analysis produces the linear combination of borrower characteristics that maximally differentiates (that is, maximizes the ratio of among-group to within-group variability) between defaulting and nondefaulting groups. Multiple regression produces the linear combination of borrower characteristics that explains the highest proportion of the variation among the proportionate amount in default.

Results of Multiple Discriminant Analysis for 40 Counties

In the multiple discriminant analysis, the 1930 populations, the 1930 debt to population ratios, and the 1930 debt to assessed valuation ratios were used to discriminate between the 20 highest-default-ratio counties and the 20 lowest-default-ratio counties. The results revealed that none of the borrower characteristics were significant at the $p<.10$ level (using the t-test). The probability that the multiple discriminate function itself was due to chance was a relatively high 14 percent, and the matrix for this function (assuming equal *a priori* probabilities and equal costs) misclassified 11 of the 40 counties. Furthermore, the standard deviations for the majority of the variables for the two discriminate groups were larger than the means of the same variable in their respective groups.

Results of Multiple Regression of County-Wide Data

The results of multiple regression analysis of county-wide data are presented in Table C-1 which shows the coefficient of multiple determination (r^2) for several combinations of the 1933 default ratio with 1930 populations, 1930 debt to population ratios, and 1930 debt to valuation ratios. The highest multiple r^2 obtained was only .12. Furthermore, the matrix of simple correlation coefficients shows that the three independent variables have negative correlations with the dependent variable. These negative correlations might have been suspected from visual inspection of the data, but would probably not have been postulated prior to commencing analysis. Similar results were found using the independent variables from the other years.

Borrower Characteristics and Payment Performance of 45 Cities

Table C-2 shows the relationships between the individual borrower characteristics and the payment performance of 45 Michigan cities. These independent relationships formed the basis for application of multiple discriminant

Table A-1

Results of Regression Analysis of County-Wide Data

Linear Regression Equations:	**Coefficient of Multiple Determination**
Dollar Default Ratio = f(Population, Debt to Population Ratio)	0.1078
Dollar Default Ratio = f(Population, Debt Valuation Ratio)	0.0958
Dollar Default Ratio = f(Dept to Population Ratio, Debt to Valuation Ratio)	0.0448
Dollar Default Ratio = f(Population, Debt to Population Ratio; Debt To Valuation Ratio)	0.1209

Simple Correlation Matrix:

	Dollar Default Ratio	Population	Debt to Population	Debt to Valuation
Dollar Default Ratio	1.000000	-0.087660	-0.5330	-0.040181
Population	-0.087660	1.000000	-0.26440	-0.038571
Debt to Population	-0.53330	-0.026440	1.000000	0.961552
Debt to Valuation	-0.040181	-0.038571	0.961552	1.000000

analysis and regression analysis of the borrower characteristics of the 45 cities. These techniques were used to see the interactive performance of all the borrower characteristics, and then they were used to develop an explanatory model based on selected borrower characteristics.

All 23 characteristics were used in the initial multiple discriminant function between the 28 cities that defaulted and the 17 units that did not during the 1929 Depression. With only 21 degrees of freedom, the probability that the linear discriminant function was due to chance was a relatively high .17. The matrix of discriminant scores (assuming equal *a priori* probabilities and equal costs) showed that four defaulting cities were classified as nondefaulting and one city that did not default was classified with the defaulting cities. The multiple regression function of all 23 borrower characteristics explained approximately 69 percent of the differences in the cities' proportion of debt in default. This regression function was significant at the 10 percent level (using the t-test with 21 degrees of freedom).

The three characteristics that had significant discriminate t-scores and high simple coefficients of correlation—X_{14}, X_{12}, and X_{23}—were used as the cornerstone of the explanatory multiple discriminant model. The probability that the discriminant function using these three characteristics was due to chance was a relatively low .04; furthermore, removal of any one of these characteristics weakened the function considerably. Each individual characteristic and various combinations of characteristics were added to these three characteristics. The best explanatory multiple discriminant model appeared to be when X_9 and X_{18} were combined with the original three characteristics. The favorable attributes of the model included: the probability that the model was due to chance was a low .02; the model included one characteristic from each of the classifications of characteristics except aggregate size (addition of any of the aggregate size variables weakened the model); none of the characteristics was highly correlated with any other characteristic; the signs of the characteristic's coefficients were consistent with the *a*

Table A-2

Relationships of Borrower Characteristics and Payment Performance of 45 Michigan Cities

Variable	Description	Discriminant T-Values[a]	Simple Coefficient of Correlation[b]
X1	Amount of debt outstanding in 1922	.64	.102
X2	Amount of debt outstanding in 1932	1.71	.057
X3	Log debt outstanding in 1932	2.96	.177
X4	Population in 1932	.86	.092
X5	Log population in 1932	1.10	-.096
X6	Total assessed property values in 1932	1.03	-.092
X7	Amount of property taxes levied in 1932	.75	-.056
X8	Assessed property value per capita in 1932	1.56	-.024
X9	Growth of population from 1922 to 1932	1.95	.189
X10	Growth of debt from 1922 to 1932	1.38	.160
X11	Growth of debt relative to population growth	1.11	.135
X12	Per capita debt in 1922	1.87	.149
X13	Per capita debt in 1932	1.69	.208
X14	Debt/assessed property values in 1932	2.27	.339
X15	Debt/taxes levied in 1922	1.26	.219
X16	Debt/taxes levied in 1932	2.40	.230
X17	Growth of taxes relative to growth in debt	1.34	.003
X18	Tax levy per $1,000 assessed value in 1932	.38	.343
X19	Tax levy per capita in 1932	.21	.227
X20	Growth of taxes from 1922 to 1932	.69	.364
X21	percent of current taxes delinquent in 1932	2.70	.314
X22	Amount of notes outstanding in 1932	1.37	.122
X23	Notes outstanding per capita in 1932	1.81	.400

[a]Comparison of means and standard deviations for characteristics of 28 defaulting cities and of 17 non-defaulting cities. This is a typical method of determining significance in discriminant analysis.

[b]The coefficients of correlation were based on the linear regression of the proportionate amount of outstanding indebtedness in default at the end of 1933 and each of the 23 borrower characteristics.

priori expectations; and there were nine misclassifications. The classifying ability of the discriminant function could be appreciably improved (to five misclassifications) by adding X^{12}, X^{16}, and X^{20}; however, the intercorrelation among characteristics and resulting inconsistencies in the signs and relative influence of some of the characteristics made such a model somewhat less desirable.

Stepwise multiple regression, using the lowest interactive t-value to eliminate characteristics, produced a similar explanatory model. The following linear regression equation was found when the regression coefficients that were not significant at the p .05 level (using the interactive t-test) were eliminated:

$$Y = .10744 - \underset{(.0318)}{.07920X_5} + \underset{(.0000508)}{.0001545X_8} - \underset{(.0123)}{.02827X_9}$$

$$- \underset{(.00366)}{.01381X_{11}} + \underset{(.419)}{.8871X_{14}} + \underset{(.00241}{.008663X_{18}}$$

$$- \underset{(.00317)}{.006813X_{19}} + .1789X_{21} + .009156X_{23}$$

This regression function explained 60 percent of the difference in the proportionate amount of debt in default for the 45 cities. The only problem with this model is that the colinearity when more than one characteristic is selected from a classification grouping makes the interpretation of some individual borrower characteristics very difficult. This is true of X_8 and X_9, X_{11} and X_{14}, and X_{18} and X_{19}. If any one of the grouped pairs is removed, however, the remaining characteristics are consistent with *a priori* reasoning. Furthermore, the regression model using the same characteristics as the selected discriminant function has an r^2 of .49 with all the variables significant and having the expected signs.

Appendix B

CENTRAL CITY SUBURBAN FISCAL DISPARITY

by
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INTRODUCTION

The process of urban growth has been a selective one. Population mobility, economic development, and socio-economic change have not affected all parts of the nation in a similar fashion. Non-metropolitan, metropolitan, central city, and suburban areas have experienced considerably different growth patterns. Rural areas continue to face precipitous declines in population and economic base; central cities find themselves experiencing rapid and marked changes in the composition of their population and local economy; and suburban areas are frequently faced with the task of controlling an urban development process that is both complex in nature and rapid in pace.

What makes these growth problems of public concern is their interrelatedness and proximity. Declining rural areas contribute to the changing racial and economic composition of central cities. These changes, in turn, provide a substantial bulk of suburban migrants. A "sorting out" process takes place which links rural, central city, and suburban areas, but the end result of this process is to leave all three areas with markedly different local fiscal problems. It is the analysis of these fiscal problems to which this appendix is directed.

Fiscal Disparities: The Concept

In a federal system, communities are quite apt to exhibit different public good preferences. The consequent differences in public expenditures, therefore, are generally regarded as satisfying differing tastes in consumption of public goods and services. Such differences do not represent a public policy problem. Indeed, some have theorized that these differentials are important in giving persons within a metropolitan area, for instance, a kind of consumer preference for the level and types of public services they desire.[1]

On the other hand, not all public expenditure differentials between and among different communities appear to be caused by differences in tastes. In some instances, the differentials are created by or imposed on a community. That is, communities do not always bear the full costs of, or have the adequate resources to meet, their public service demands. The industrial enclave does not pay to educate the children of its workers; the dormitory suburb does not pay the full police costs that its commuters generate in central cities. The central city in the past has captured a disproportionate part of the metropolitan area's resources while suburbs presently may follow a policy of forcing very poor populations to remain in the central cities. In all these cases, expenditure and tax differentials are not of a

*The authors are with Syracuse University and the ACIR respectively. This Appendix is based on 1970 data developed for ACIR. The opinions are those of the authors.

voluntary nature. Fiscal differentials become non-neutral in character.

In the urban growth process, several types of fiscal imbalance occur in the local public sector. Specifically, fiscal resources become distributed unevenly in the metropolitan area; communities with similar public service needs have to exert different levels of tax effort to attain these common needs. Public service needs have also been distributed unevenly in the metropolitan area. Some communities have disproportionately high concentrations of lower income families, elderly, and other high resource using groups while others have a population which does not exert undue demands on the local public sector. This situation is aggravated by local government structure in metropolitan areas remaining virtually unchanged over time. While most State governments now finance welfare services and governments have increasingly taken on more public service responsibilities, school districts, special districts and general purpose local governments still have the major responsibility for public services in most parts of the country.

The metropolitan community has become characterized by communities with significant economic and social interrelationships but with significantly different patterns of public resources and demands. As a result, many communities exhibit comparative fiscal advantages or disadvantages in their financing of similar public service programs. Far too frequently resource requirements and public service demands have run counter to each other. Communities with a relative overabundance of resources face limited public service demands while those with high public service demands frequently have relatively low resource endowment.

In a situation of local fiscal imbalance, moreover, a negative dynamic sets in. Communities with an overabundance of resources attract high-income residents and expensive non-residential development while low-income communities lose their ability to hold their resource bases because of their extreme public service demands. Communities with a comparative fiscal advantage continue to attract resources and generally exclude sources of excessive public service demand while communities with fiscal disadvantages remain accessible to those with high resource demands and progressively lose their ability to compete for taxable resources. This negative spiralling process then, warrants public intervention if fiscal disparities are to be ameliorated.

Fiscal Disparities: Previous Evidence

As early as 1957, researchers noted fiscal disparities among metropolitan localities. Harvey Brazer, for instance, noted that central city—suburban fiscal differences were, in part, a direct result of an unequal distribution of resources and needs in a metropolitan complex. Elaborating on this point, he stated:

> Central cities may, in fact, provide more public services than surrounding communities . . . , some of which are imposed on the central city by the behavior of suburban cities and socio-economic forces beyond the control of municipal governments . . . To the extent that suburban communities, through zoning regulations and discriminatory patterns in rentals and real estate transactions, contribute directly to the concentration in the central city of socio-economic groups which impose heavy demands upon local government services, they are, in fact, exploiting the central city.[2]

Later research on metropolitan finances by Margolis in San Francisco, Sacks and Hellmuth in Cleveland, Curran in Milwaukee, and Beck in Northeastern New Jersey confirmed the presence of significant differences in intra-metropolitan public service needs and revenue capabilities. The magnitude of these needs-resource gaps seemed to indicate to most observers the presence of fiscal disparities in the metropolitan areas studied.

More comprehensive research also indicated that the disparities problem was not confined to just a few metropolitan areas. Netzer, Campbell and Sacks, and the Advisory Commission on Intergovernmental Relations (ACIR) in several separate studies dating from 1962, found that while taxes and expenditirues were higher in central cities, per capita income generally average no more and was often substantially less in these same areas. Thus, cities were in a relatively poor position to compete with

suburbs; cities could finance equal public public service demands only by exerting a relatively greater tax effort.
Behind these fiscal patterns lay socio-economic and demographic trends that gave no relief to this relatively bleak fiscal picture. The process of urban growth, while presenting both central cities and suburbs with difficult policy problems, was bearing especially hard on central cities and much less so on suburban areas.

FISCAL DISPARITIES: SOME UNDERLYING CHARACTERISTICS

Fiscal disparities are associated with differentials among a number of demographic, social, and economic characteristics. When localities experience fiscal disparities, they are also apt to experience substantial changes in population growth, racial balance, age composition, income distribution, and housing development. It is the very "sorting out" of different types of population groups that is one of the initial and continuing factors in the existence of fiscal disparities. Therefore, a review of selected demographic and socio-economic developments in the seventy-two metropolitan areas being studied is necessary before analyzing fiscal disparities in those areas.

Population Growth

The central city is rapidly becoming a less dominant part of its metropolitan area. In 1960, 32 of the 72 largest central city areas contained over fifty percent of their metropolitan populations *(See Table B-1.)* By 1970, only 24 central cities could claim this distinction. In the Northeast only New York City contained more than fifty percent of its SMSA population. Most of the dominant central cities were in the South both in 1960 and 1970. Western central cities were similar to Northeastern ones with regard to the degree of metropolitan decentralization.

Thirty-eight of the 72 central city areas experienced actual population declines between 1960 and 1970. Ten of them experienced population losses of greater than ten percent. Only five suburban areas—those in Wichita, Toledo, Tulsa, Knoxville, and Memphis—exhibited actual population declines during this period.

Central city population declines were marked in a number of smaller metropolitan areas in the Northeast and Midwest. Wilmington, Albany-Schenectady-Troy, Harrisburg, Providence, and Youngstown-Warren all experienced population losses of over five percent between 1960 and 1970. Yet, losses of similar magnitude also occurred in Boston, Buffalo, Cincinnati, Cleveland, Detroit, Minneapolis-St. Paul, Pittsburgh, and St. Louis.

Central city growth, where it occurred, was due largely to annexation or consolidation. In the Midwest, central city growth may be attributed primarily to those factors. Ninety percent of Southern central city and about fifty percent of Western central city growth was caused by similar developments. Indeed, without annexation or consolidation, several Southern and Western central cities would have experienced actual population declines between 1960 and 1970. Moreover, it is likely that a large portion of Southern and Western central city growth occurred in areas annexed to those cities since 1950.

Suburban population growth in all SMSA's occurred as a result of two forces—migration from the central city and natural increase. In the Northeast and Midwest, natural increase accounted for fifty and fifty-eight percent of suburban population growth respectively. In the South and the West, however, sixty percent of suburban growth was due to net migration. Only a few suburban areas, mainly those that had a very substantial rural component, exhibited low rates of natural increase or net outmigration. *(See Table B-2.)*

As a result of declining central city and expanding suburban population growth, population densities declined in central cities and increased in suburban areas between 1960 and 1970. Suburban population density increased by over 35 percent while central city densities decreased by 16 percent in this decade. *(See Table B-3.)* Still, in 1970 only nine suburban areas exhibited densities of greater than 1,000 persons per square mile, and central city densities were ten to fifteen times higher than those of their respective suburbans. Cities were becoming less crowded, yet they were still far more concentrated than their suburbs.

Not only are suburban areas less dense than their central cities, but also many are still

Table B-1
Selected Metropolitan Population Characteristics, 72 Largest SMSA's, 1960-1970

Region and SMSA	Central City Population as Percent of Total SMSA		% Population Growth 1960-1970	
	1960	1970	Central City	Outside Central City
NORTHEAST	36.1%	30.6%	-6.8%	22.7%
Hartford, Conn.	23.5	19.3	-2.6	24.9
Wilmington, Del.	23.1	16.1	-16.1	31.5
Washington, D.C.	37.0	26.4	-2.0	61.8
Baltimore, Md.	52.1	43.7	-3.1	34.7
Boston, Mass.	22.4	19.0	-8.1	13.4
Springfield, Mass.	32.8	28.1	-6.1	17.0
Jersey City, N.J.	45.2	42.8	-5.6	4.2
Newark, N.J.	24.0	20.6	-5.6	14.8
Pat.-Clif.-Pas., N.J.	23.6	20.8	1.0	18.6
Albany-Schen.-Troy, N.Y.	42.4	35.5	-8.4	22.8
Buffalo, N.Y.	40.8	34.3	-13.2	14.5
New York City, N.Y.	72.8	68.2	1.1	25.6
Rochester, N.Y.	43.5	33.6	-7.0	41.7
Syracuse, N.Y.	38.3	31.0	-8.7	26.2
Allentown-Beth.-Easton, Pa.	43.8	39.0	-1.5	19.7
Harrisburg, Pa.	21.4	16.6	-14.6	17.3
Philadelphia, Pa.	46.1	40.4	-2.7	-22.6
Pittsburgh, Pa.	25.1	21.7	-14.0	4.5
Providence, R.I.	28.9	23.3	-13.6	15.3
MIDWEST	50.2	44.9	-0.3	25.5
Chicago, Ill.	57.1	48.2	-5.2	34.3
Gary-Hammond-E. Chi., Ind.	60.6	52.1	-5.0	28.6
Indianapolis, Ind.	70.6	67.1	11.7	38.6
Wichita, Kansas	52.2	52.8	8.6	-11.1
Detroit, Michigan	44.4	36.0	-9.5	28.4
Flint, Michigan	47.3	38.9	-1.9	38.3
Grand Rapids, Michigan	38.4	45.0	11.5	20.0
Minneapolis-St. Paul, Minn.	53.7	41.0	-6.6	55.9
Kansas City, Mo.	43.5	40.4	6.7	21.0
St. Louis, Mo.	35.6	26.3	-17.1	28.5
Omaha, Neb.	65.9	64.3	15.2	23.3
Akron, Ohio	48.0	40.5	-5.2	28.2
Cincinnati, Ohio	39.6	32.7	-9.9	21.8
Cleveland, Ohio	45.9	36.4	-14.3	27.1
Columbus, Ohio	62.4	58.9	14.5	32.8
Dayton, Ohio	36.1	28.6	-7.1	30.6
Toledo, Ohio	50.4	55.4	20.7	-1.2
Youngstown-Warren, Ohio	44.5	37.9	-10.1	17.7
Milwaukee, Wisconsin	58.0	51.1	-3.3	•27.7
SOUTH	61.5	56.0	12.4	36.2
Birmingham, Ala.	47.3	40.7	-11.7	15.3
Mobile, Ala.	55.8	50.4	-6.3	16.2
Jacksonville, Fla.*	100.0	100.0	16.1	-100.0
Miami, Fla.	31.2	26.4	14.8	45.0
Tampa-St. Pete., Fla.	59.1	48.8	8.3	64.0
Atlanta, Ga.	47.9	35.7	2.0	68.6
Louisville, Ky.	53.9	43.7	-7.5	39.0
New Orleans, La.	69.2	56.7	-5.4	61.8
Greensboro-W.S.-H.P., N.C.	56.3	56.3	16.2	15.9
Oklahoma City, Okla.	63.4	57.2	13.0	46.3
Tulsa, Okla.	62.5	68.2	26.7	-7.6

Region and SMSA	Central City Population as Percent of Total SMSA 1960	1970	Percent Population Growth 1960-1970 Central City	Outside Central City
Knoxville, Tenn.	30.4	43.6	56.1	-11.9
Memphis, Tenn.	73.8	55.6	25.3	-17.2
Nashville-David., Tenn.	86.2	82.8	12.1	45.7
Dallas, Texas	60.7	54.3	24.2	61.8
Fort Worth, Texas	62.2	51.6	10.4	69.9
Houston, Texas	66.1	62.1	31.4	56.7
San Antonio, Texas	82.1	75.7	11.3	63.4
Norfolk-Ports., Va.	72.7	61.6	-0.4	65.8
Richmond, Va.	50.4	48.2	13.5	24.3
WEST	45.1	40.5	24.3	48.6
Phoenix, Ariz.	66.2	60.1	32.4	72.0
Anaheim-S.A.-G.G., Cal.	41.0	31.4	54.4	134.4
Fresno, Cal.	36.6	40.2	23.9	6.5
Los Angeles-L.B., Cal.	46.8	45.1	12.5	20.0
Sacramento, Cal.	30.6	31.8	32.7	25.9
San Bernardino-R., O., Cal.	27.5	27.0	38.4	42.2
San Diego, Cal.	55.5	51.3	21.6	43.8
San Francisco-Oak., Cal	41.8	34.6	-2.8	31.9
San Jose, Cal.	31.8	41.9	118.3	41.3
Denver, Colo.	53.1	41.9	4.2	63.7
Honolulu, Hawaii	58.8	51.6	10.4	47.6
Portland, Ore.	46.0	37.9	2.6	39.5
Salt Lake City, Utah	42.3	31.5	-7.2	47.8
Seattle-Everett, Wash.	54.0	41.1	-2.2	64.3
TOTAL (unweighted average)	48.4	46.0	4.5	32.4

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970* (PHC-2 Series), Table 1,3.
* Jacksonville not included in unweighted regional totals.

Table B-2
Central City and Outside Central City Population Growth Characteristics, 72 Largest SMSA's, 1960-1970

Region and SMSA	% Change in Central City		% Change Outside Central City		
	Total	Due to Annexation	Total	Due to Migration	Natural Increase
NORTHEAST	-6.8%	0.0%	22.7%	11.4%	11.3%
Hartford, Conn.	-2-6	0.0	24.9	13.1	11.8
Wilmington, Del.	-16.1	0.0	31.5	15.6	15.9
Washington, D.C.	-1.0	0.0	61.9	39.7	22.1
Baltimore, Md.	-3.1	0.0	34.7	19.7	15.0
Boston, Mass.	-8.1	0.0	13.4	3.4	10.0
Springfield, Mass.	-6.1	0.0	17.0	7.5	9.5
Jersey City, N.J.	-5.6	0.0	4.2	1.9	6.1
Newark, N.J.	-5.6	0.0	14.8	6.6	8.2
Pat.-Clif.-Pas., N.J.	1.0	0.0	18.7	9.5	9.1
Albany-Schen.-Troy, N.Y.	-8.4	0.0	22.9	13.3	9.5
Buffalo, N.Y.	-13.2	0.0	14.5	2.4	12.1
New York City, N.Y.	1.1	0.0	25.7	14.8	10.8
Rochester, N.Y.	-7.0	0.0	41.7	28.1	13.6
Syracuse, N.Y.	-8.7	0.0	26.2	11.5	14.7
Allentown-Beth.-aston, Pa.	-1.5	0.7	19.8	12.2	7.5
Harrisburg, Pa.	-14.6	0.0	17.3	7.7	9.6
Philadelphia, Pa.	-2.7	0.0	22.6	10.8	11.8
Pittsburgh, Pa.	-14.0	0.0	4.4	-3.4	7.9
Providence, R.I.	-13.6	0.0	15.3	6.3	9.0
MIDWEST	2.0	9.3	25.8	10.9	14.9
Chicago, ILL.	-5.2	0.1	35.3	20.3	14.9
Gary-Hammond, E. Chi., Ind.	-5.0	0.7	34.2	18.6	15.7
Indianapolis, Ind.	56.3	64.3	31.6	13.6	18.0
Wichita, Kansas	8.6	15.4	-11.1	-21.1	10.0
Detroit, Michigan	-9.5	0.0	28.5	11.5	16.9
Flint, Michigan	-1.9	0.1	38.3	19.5	18.8
Grand Rapids, Michigan	11.5	22.0	20.0	5.0	15.0
Minneapolis-St. Paul, Minn.	-6.6	0.0	55.9	32.8	23.2
Kansas City, Mo.	-6.7	14.7	21.0	6.9	14.1
St. Louis, Mo.	-17.1	0.0	28.5	14.7	13.8
Omaha, Neb.	15.2	23.8	23.4	4.2	19.1
Akron, Ohio	-5.2	0.0	28.2	15.0	13.2
Cincinnati, Ohio	-9.9	0.2	21.7	9.5	12.3
Cleveland, Ohio	-14.3	0.0	27.1	15.9	11.2
Columbus, Ohio	14.5	5.6	32.8	18.2	14.6
Dayton, Ohio	-7.1	1.2	30.5	17.0	13.6
Toledo, Ohio	20.7	26.7	-1.2	-13.3	12.1
Youngstown-Warren, Ohio	-10.1	0.8	17.7	6.7	11.0
Milwaukee, Wisconsin	-3.3	0.9	27.7	12.4	15.3
SOUTH	27.0	26.9	36.2	21.9	14.2
Birmingham, Ala.	-11.7	0.7	15.3	5.9	9.4
Mobile, Ala.	-6.3	0.2	16.2	-0.7	16.9
Jacksonville, Fla.	163.1	181.4	0.0	0.0	0.0
Miami, Fla.	14.8	0.0	45.0	35.8	9.2
Tampa-St. Pete., Fla.	8.3	3.4	64.0	58.3	5.7
Atlanta, Ga.	2.0	0.7	68.6	47.2	21.5
Louisville, Ky.	-7.5	3.3	39.0	25.7	13.3
New Orleans, La.	-5.4	0.0	61.8	39.3	22.5
Greensboro-W.S.-H.P., N.C.	16.2	14.6	15.9	2.7	13.2
Oklahoma City, Okla.	13.0	2.9	46.3	31.3	15.0
Tulsa, Okla.	26.7	35.6	-7.6	-15.7	8.1

Region and SMSA	% Change in Central City Total	Due to Annexation tion	% Change Outside Central City Total	Due to Migration	Natural Increase
Knoxville, Tenn.	56.1	50.2	-11.9	-21.9	10.0
Memphis, Tenn.	25.3	27.4	-17.2	-37.1	19.9
Nashville-David., Tenn.	162.2	181.6	45.7	34.3	11.4
Dallas, Texas	24.2	1.7	61.8	42.9	18.9
Fort Worth, Texas	10.4	3.1	69.9	52.9	17.1
Houston, Texas	31.4	3.8	56.7	39.0	17.7
San Antonio, Texas	11.3	2.5	63.4	46.7	16.7
Norfolk-Ports., Va.	-0.4	2.9	65.8	43.4	22.4
Richmond, Va.	13.5	21.5	24.3	8.5	15.8
WEST	24.3	11.9	48.6	30.1	18.6
Phoenix, Ariz.	32.4	14.7	72.0	49.3	22.8
Anaheim-S.A.-G.G., Cal.	54.4	14.0	134.4	110.8	23.6
Fresno, Cal.	23.9	20.5	6.5	-9.7	16.2
Los Angeles-L.B., Cal.	12.5	0.6	20.0	6.0	14.0
Sacramento, Cal.	32.7	33.3	25.9	10.2	15.7
San Bernardino-R., O., Cal.	38.4	23.9	42.2	28.5	13.7
San Diego, Cal.	21.6	1.7	43.8	27.0	16.8
San Francisco-Oak., Cal.	-2.8	0.1	31.9	17.6	14.3
San Jose, Cal.	118.3	39.2	41.3	24.3	16.9
Denver, Colo.	4.2	11.5	63.7	42.7	21.0
Honolulu, Hawaii	10.4	0.0	47.6	19.9	27.6
Portland, Ore.	2.6	4.0	39.5	27.0	12.5
Salt Lake City, Utah	-7.2	0.3	47.8	20.7	27.1
Seattle-Everett, Wash.	-2.2	2.2	64.3	46.5	17.7
TOTAL (unweighted average)	10.9	12.2	32.4	18.2	14.2

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas 1960 to 1970* (PHC-2 Series), Table 3 and ACIR tabulations.

Table B-3
Comparative Population Densities, 72 Largest SMSA's

Region and SMSA	1970 Pop. Density		% Change in Density 1960-1970	
	CC	OCC	CC	OCC
NORTHEAST	11157	1401	-6.8%	22.7%
Hartford, Conn.	9295	911	-2.6	24.9
Wilmington, Del.	6184	364	-16.1	31.5
Washington, D.C.	12402	918	-1.0	61.9
Baltimore, Md.	11612	534	-3.5	34.7
Boston, Mass.	13936	1575	-8.1	13.4
Springfield, Mass.	5122	375	-6.1	17.0
Jersey City, N.J.	17370	10988	-5.6	4.2
Newark, N.J.	15934	2177	-5.6	14.8
Paterson-Clif.-Pas., N.J.	12278	2664	1.0	18.7
Albany-Schen.-Troy, N.Y.	6235	214	-8.3	22.9
Buffalo, N.Y.	11287	572	-13.1	14.5
New York City, N.Y.	26226	1994	1.1	25.7
Rochester, N.Y.	8006	257	-7.0	41.7
Syracuse, N.Y.	7888	183	-8.7	26.2
Allentown-Beth.-Easton, Pa.	5182	317	-1.5	19.8
Harrisburg, Pa.	8508	212	-14.6	17.3
Philadelphia, Pa.	15105	838	-2.7	22.6
Pittsburgh, Pa.	9457	628	-13.9	4.4
Providence, R.I.	9956	989	-13.6	15.3
MIDWEST	6171	446	-23.0	28.1
Chicago, Ill.	15166	1033	-5.2	35.3
Gary-Hammond-E. Chi., Ind.	4233	353	-44.0	39.3
Indianapolis, Ind.	1852	136	-72.8	44.9
Wichita, Kans.	3179	48	-36.3	-9.8
Detroit, Mich.	10953	1482	-9.5	28.5
Flint, Mich.	5658	239	-10.8	38.7
Grand Rapids, Mich.	4205	249	-36.0	21.8
Minneapolis-St. Paul, Minn.	7089	534	-6.5	55.9
Kansas City, Mo.	1605	305	-56.1	30.2
St. Louis, Mo.	10201	429	-17.0	28.5
Omaha, Neb.	4824	132	-23.2	25.4
Akron, Ohio	5100	475	-6.9	28.3
Cincinnati, Ohio	5802	450	-11.1	21.8
Cleveland, Ohio	9880	910	-14.3	27.1
Columbus, Ohio	4184	276	-22.8	36.9
Dayton, Ohio	6411	363	-16.9	30.8
Toledo, Ohio	4738	215	-27.0	1.0
Youngstown-Warren, Ohio	4619	341	-12.1	17.8
Milwaukee, Wisc.	7548	504	-8.4	28.2
SOUTH	3260	243	-23.5	43.0
Birmingham, Ala.	4629	417	-14.4	15.5
Mobile, Ala.	1338	70	-19.5	17.1
Jacksonville, Fla.	703	0	-89.5	0.0
Miami, Fla.	9849	465	14.8	45.0
Tampa-St. Pete., Fla.	3529	446	-3.3	66.1
Atlanta, Ga.	3654	561	2.0	68.6
Louisville, Ky.	5926	549	-10.5	39.4
New Orleans, La.	2982	256	-5.4	61.8
Greensboro-W.S.-H.P., N.C.	2413	184	-31.6	19.2
Oklahoma City, Okla.	566	184	-47.8	80.4
Tulsa, Okla.	1791	40	-66.5	-4.4
Knoxville, Tenn.	2328	168	-50.0	-8.6
Memphis, Tenn.	3523	124	-8.7	-13.9

Region and SMSA	1970 Pop. Density CC	OCC	% Change in Density 1960-1970 CC	OCC
Nashville-David., Tenn.	842	85	-85.7	112.6
Dallas, Texas	3093	166	15.6	62.5
Fort Worth, Texas	1919	264	-25.7	78.1
Houston, Texas	2894	128	-1.0	59.5
San Antonio, Texas	3825	117	-3.7	65.5
Norfolk-Ports., Va.	5236	446	-12.9	68.6
Richmond, Va.	4160	237	-26.2	26.6
WEST	4453	418	-7.9	50.3
Phoenix, Ariz.	2345	43	-0.1	73.2
Anaheim-S.A.-G.G., Cal.	5716	1384	22.7	139.7
Fresno, Cal.	4149	42	-16.4	6.7
Los Angeles-L.B., Cal.	6201	1084	7.8	20.7
Sacramento, Cal.	2707	163	-36.5	27.7
San Bernardino-R., O., Cal.	2355	31	-11.3	42.5
San Diego, Cal.	2891	164	-1.6	45.4
San Francisco-Oak., Cal.	10666	855	-6.6	32.1
San Jose, Cal.	3327	530	-8.8	50.7
Denver, Colo.	5594	200	-23.0	64.8
Honolulu, Hawaii	3734	598	10.4	47.6
Portland, Ore.	4299	176	-25.9	40.4
Salt Lake City, Utah	3141	380	-7.2	47.8
Seattle-Everett, Wash.	5218	200	-14.4	64.8
TOTAL (unweighted average)	6344	636	-15.9	35.1

Source: ACIR tabulation.

highly rural in character. Suburban areas in the East, Midwest, and South generally contain twenty to twenty-five percent of their population in semi-urbanized areas. In the West, the comparable proportion was fourteen percent, indicating that Western suburban areas were more highly urbanized than those in other parts of the country. *(See Table B-4.)*

Outside central city areas with over forty percent of their population living in a rural setting included Syracuse and Allentown-Bethlehem-Easton in the East; Indianapolis, Wichita, Flint, and Cincinnati in the Midwest; Mobile, Greensboro-Winston-Salem-High Point, Tulsa, Knoxville, and Memphis in the South; and Fresno in the West. Highly urbanized suburbs included such areas as Jersey City, Newark, Patterson-Clifton-Passaic, New York City, Providence, Chicago, Detroit, Miami, Norfolk-Portsmouth, Los Angeles-Long Beach, San Francisco-Oakland, and San Jose and Denver.

Racial Composition

Between 1960 and 1970, central cities were subjected to extensive changes in their racial composition. Forty of the 72 central city areas studied experienced an actual decline in their white population. At the same time, all but three central cities experienced increases in their nonwhite populations. *(See Table B-5.)*

An analysis of nonwhite population growth between 1960 and 1970 indicates that over 85 percent of all nonwhite metropolitan population growth occurred in central cities. In areas such as Harrisburg, Gary-Hammond-East Chicago, Akron, Toledo, Youngstown-Warren, Mobile, Greensboro-Winston-Salem-High Point, Tulsa, Knoxville, Memphis, and Fresno, *all* of the nonwhite metropolitan population growth occurred in the central city. The resulting contrast in the racial composition of central city and suburban populations is a striking one. In 1970, 24 of 72 central cities were more than one-quarter black; at the same time 67 of 72 outside central city areas were more than 90 percent white. On the average central cities in the 72 metropolitan areas were 21 percent black in 1970; the similar proportion for suburban areas was four percent. In short, central cities were becoming increasingly non-white while suburban areas remained almost exclusively white.

Age Composition

Central cities continue to exhibit higher proportions of the elderly in their populations than suburban areas. On the average, 11 percent of central city population was sixty-five or older; only eight percent of suburban population was in the same age bracket. Only four suburban areas had higher proportions of the elderly than their respective central cities. *(See Table B-6.)*

Suburban areas on the other hand, almost invariably exhibited larger proportions of public school children in their population than did central city areas. In 1970, the 72 suburban areas showed an enrollment ratio (public school pupils to total population) of 24 percent; central cities had an average enrollment ratio of 19 percent. The differential in enrollment ratios was greatest in the West and least pronounced in the South. Only three central cities had enrollment ratios that were higher than their respective suburbs.

Of the two types of age-dependant population, then, the older group was more apt to reside in central city areas and school-age children were more predominant in suburban areas. As parochial school enrollment declines in the central city, however, the difference in enrollment ratios between central city and suburb will decrease unless suburban areas increase their already high level of attraction for families with school-age children.

Income Distribution

Thirty five of the 72 central cities surveyed had higher levels of per capital income than their suburbs *(See Table B-7.)* The majority of such central cities were in the South and West. In Baltimore, Boston, Newark, Patterson-Clifton-Passaic, St. Louis, Cleveland, Dayton, Miami, San Antonio and San Jose, central city per capita income was less than 85 percent of suburban per capita income. In Buffalo, Syracuse, Flint, Mobile, Greensboro-Winston-Salem-High Point, Tulsa, Memphis, Nashville-Davidson, Dallas, Houston, Fresno, Sacramento, and Salt Lake City, central city per capita income was fifteen percent higher than that of suburban areas.

Table B-4
Rural Component of Population Outside the Central Cities of the 72 Largest SMSA's
1970

Region and SMSA	Population (000)	% Population in Rural Area*
NORTHEAST		20.8
Hartford, Conn.	519	24.0
Wilmington, Del.	419	24.7
Washington, D.C.	2105	10.3
Baltimore, Md.	1165	14.1
Boston, Mass.	2527	12.3
Springfield, Mass.	303	34.6
Jersey City, N.J.	349	-0-
Newark, N.J.	1474	4.5
Pat.-Clif.-Pas., N.J.	1076	1.8
Albany-Schen.-Troy, N.Y.	465	38.4
Buffalo, N.Y.	886	22.6
New York City, N.Y.	3661	4.9
Rochester, N.Y.	586	35.8
Syracuse, N.Y.	439	41.7
Allentown-Beth.-Easton, Pa.	331	43.0
Harrisburg, Pa.	343	39.4
Philadelphia, Pa.	2869	18.9
Pittsburgh, Pa.	1881	21.4
Providence, R.I.	429	2.6
MIDWEST		26.9
Chicago, Ill.	3612	7.4
Gary-Hammond-E. Chi., Ind.	303	20.3
Indianapolis, Ind.	318	48.8
Wichita, Kansas	113	47.5
Detroit, Michigan	2688	6.9
Flint, Michigan	303	48.3
Grand Rapids, Michigan	342	39.5
Minneapolis-St. Paul, Minn.	1069	7.8
Kansas City, Mo.	747	14.1
St. Louis, Mo.	1741	16.1
Omaha, Neb.	193	25.0
Akron, Ohio	404	27.5
Cincinnati, Ohio	932	72.3
Cleveland, Ohio	1313	9.3
Columbus, Ohio	377	24.3
Dayton, Ohio	607	24.0
Toledo, Ohio	309	26.6
Youngstown-Warren, Ohio	333	35.9
Milwaukee, Wisconsin	687	9.6
SOUTH		27.5
Birmingham, Ala.	438	33.9
Mobile, Ala.	187	53.7
Jacksonville, Fla.	-0-	10.0
Miami, Fla.	933	2.2
Tampa-St. Pete., Fla.	519	21.6
Atlanta, Ga.	893	28.2
Louisville, Ky.	465	16.4
New Orleans, La.	452	13.3
Greensboro-W.S.-H.P., N.C.	264	76.3
Oklahoma City, Okla.	274	7.0
Tulsa, Okla.	145	46.0

Region and SMSA	Population (000)	% Population in Rural Area*
Knoxville, Tenn.	226	66.0
Memnhis, Tenn.	147	41.8
Nashville-David., Tenn.	93	.9
Dallas, Texas	712	15.1
Fort Worth, Texas	369	12.6
Houston, Texas	752	26.3
San Antonio, Texas	210	26.5
Norfolk-Ports, Va.	262	2.0
Richmond, Va.	269	33.2
WEST		13.9
Phoenix, Ariz.	386	16.5
Anaheim-S.A.-G.G., Cal.	975	1.6
Fresno, Cal.	247	41.7
Los Angeles-L.B., Cal.	3857	2.4
Sacramento, Cal.	546	18.1
San Bernardino-R., O., Cal.	835	20.5
San Diego, Cal.	661	13.1
San Francisco-Oak., Cal.	2032	3.5
San Jose, Cal.	619	4.3
Denver, Colo.	713	9.7
Honolulu, Hawaii	304	14.3
Portland, Ore.	627	19.5
Salt Lake City, Utah	382	9.5
Seattle-Everett, Wash.	837	19.3
TOTAL (unweighted average)		23.0

*This portion of the outside central city population not in the urbanized area.

Source: U.S. Bureau of the Census, 1970 Census of Population, PC(1) Series, Table 9.

Table B-5
Comparative Racial Composition and Growth of the 72 Largest SMSA's, 1960-1970

Region and SMSA	% Nonwhite in Central City		Change white population 1960-70		CC share of SMSA's nonwhite growth 1960-70
	1960	1970	CC	OCC	
NORTHEAST	17%	25%	-19%	22%	81%
Hartford, Conn.	15	28	-18	24	89
Wilmington, Del.	26	43	-37	33	77
Washington, D.C.	54	71	-39	58	60
Baltimore, Md.	35	46	-21	36	91
Boston, Mass.	9	16	-17	13	84
Springfield, Mass.	8	13	-12	16	94
Jersey City, N.J.	13	21	-15	3	91
Newark, N.J.	34	54	-37	11	56
Pat.-Clif.-Pas., N.J.	9	17	-9	18	72
Albany-Schen.-Troy, N.Y.	5	8	-11	22	78
Buffalo, N.Y.	13	20	-21	14	91
New York City, N.Y.	14	21	-9	24	88
Rochester, N.Y.	7	17	-17	41	88
Syracuse, N.Y.	5	11	-15	26	92
Allentown-Beth.-Easton, Pa.	1	3	-3	20	84
Harrisburg, Pa.	19	31	-28	18	114
Philadelphia, Pa.	26	34	-13	22	72
Pittsburgh, Pa.	17	20	-18	4	50
Providence, R.I.	3	5	-18	15	72
MIDWEST	17	23	-8	25	89
Chicago, Ill.	23	33	-19	34	85
Gary-Hammond-E. Chi., Ind.	25	33	-17	34	100
Indianapolis, Ind.	15	18	7	31	96
Wichita, Kansas	8	10	6	-12	95
Detroit, Michigan	29	44	-29	28	90
Flint, Michigan	18	28	-15	37	83
Grand Rapids, Michigan	8	11	7	20	94
Minneapolis-St. Paul, Minn.	3	4	-9	55	87
Kan. City, Mo.	18	22	0	21	85
St. Louis, Mo.	29	41	-32	27	48
Omaha, Neb.	8	10	13	22	88
Akron, Ohio	13	18	-10	29	100
Cincinnati, Ohio	22	28	-17	21	74
Cleveland, Ohio	29	38	-27	23	50
Columbus, Ohio	16	19	11	32	92
Dayton, Ohio	22	31	-18	30	71
Toledo, Ohio	13	14	19	-1	108
Youngstown-Warren, Ohio	17	22	-16	19	140
Milwaukee, Wisconsin	8	15	-10	27	98
SOUTH	24	26	8	40	94
Birmingham, Ala.	40	42	-15	22	66
Mobile, Ala.	32	35	-11	22	103
Jacksonville, Fla.	23	29	17	0	100
Miami, Fla.	22	23	14	43	21
Tampa-St. Pete., Fla.	15	18	5	66	78
Atlanta, Ga.	38	51	-20	73	87
Louisville, Ky.	18	24	-14	40	88
New Orleans, La.	37	45	-18	68	73
Greensboro-W.S.-H.P., N.C.	28	29	14	18	109
Oklahoma City, Okla.	12	14	9	45	94
Tulsa, Okla.	9	11	22	-8	146
Knoxville, Tenn.	19	13	67	-13	128
Memphis, Tenn.	37	40	21	-6	174

Region and SMSA	% Nonwhite in Central City		Change white population 1960-70		CC share of SMSA's nonwhite growth 1960-70
	1960	1970	CC	OCC	
Nashville-David., Tenn.	19	20	11	52	98
Dallas, Texas	19	25	14	66	98
Fort Worth, Texas	16	20	4	71	97
Houston, Texas	23	216	26	63	96
San Antonio, Texas	7	8	10	63	75
Norfolk-Ports., Va.	28	31	–6	78	76
Richmond, Va.	42	42	13	25	80
WEST	5	8	21	47	77
Phoenix, Ariz.	5	5	31	74	90
Anaheim-S.A.-G.G., Cal.	1	2	51	133	75
Fresno, Cal.	8	10	19	5	181
Los Angeles-L.B., Cal.	12	17	5	14	59
Sacramento, Cal.	6	11	24	25	88
San Bernardino-R., O., Cal.	6	7	34	40	51
San Diego, Cal.	6	8	17	41	82
San Francisco-Oak., Cal.	14	21	–17	28	60
San Jose, Cal.	1	3	111	38	65
Denver, Colo.	6	9	0	63	91
Honolulu, Hawaii	0	1	37	52	43
Portland, Ore.	4	6	0	39	90
Salt Lake City, Utah	1	1	–8	47	26
Seattle-Everett, Wash.	5	7	–6	63	83
TOTAL (unweighted average)	17	21	–1	35	86

* Nonwhite population declined in both central city and outside central city areas of the Birmingham SMSA.

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970* (PHC-2 Series), Table 1.

Table B-6
Comparative Demographic Profiles, 72 Largest SMSA's, 1970

Region and SMSA	% Population over 65		% Population in Public School	
	CC	OCC	CC	OCC
NORTHEAST	12%	9%	17%	22%
Hartford, Conn.	11	9	18	23
Wilmington, Del.	14	7	19	23
Washington, D.C.	9	5	20	24
Baltimore, Md.	11	7	21	22
Boston, Mass.	13	11	15	27
Springfield, Mass.	13	10	20	21
Jersey City, N.J.	11	11	15	14
Newark, N.J.	8	10	20	20
Pat.-Clif.-Pas., N.J.	12	9	17	20
Albany-Schen.-Troy, N.Y.	15	9	13	21
Buffalo, N.Y.	13	8	15	23
New York City, N.Y.	12	8	14	23
Rochester, N.Y.	14	8	16	24
Syracuse, N.Y.	13	8	15	27
Allentown-Beth.-Easton, Pa.	13	10	22	19
Harrisburg, Pa.	15	9	19	24
Philadelphia, Pa.	12	8	15	20
Pittsburgh, Pa.	13	10	14	21
Providence, R.I.	15	11	14	20
MIDWEST	11	7	20	25
Chicago, Ill.	10	7	17	22
Gary-Hammond-E. Chi., Ind.	7	6	23	25
Indianapolis, Ind.	9	9	20	24
Wichita, Kans.	19	7	22	27
Detroit, Mich.	11	6	18	24
Flint, Mich.	9	5	22	27
Grand Rapids, Mich.	12	7	16	24
Minneapolis-St. Paul, Minn.	14	5	16	28
Kansas City, Mo.	12	8	24	25
St. Louis, Mo.	15	8	19	22
Omaha, Neb.	10	7	17	29
Akron, Ohio	11	7	21	25
Cincinnati, Ohio	13	8	18	22
Cleveland, Ohio	11	8	20	21
Columbus, Ohio	8	7	20	26
Dayton, Ohio	11	6	21	25
Toledo, Ohio	11	8	19	24
Youngstown-Warren, Ohio	12	8	20	23
Milwaukee, Wisc.	11	8	18	23
SOUTH	10	8	20	24
Birmingham, Ala.	12	9	22	24
Mobile, Ala	9	8	19	20
Jacksonville, Fla.	7	-	23	0
Miami, Fla.	14	13	19	19
Tampa-St. Pete., Fla.	23	20	18	18
Atlanta, Ga.	9	5	24	23
Louisville, Ky.	12	6	15	26
New Orleans, La.	11	5	18	20
Greensboro-W.S.-H.P., N.C.	8	7	22	24
Oklahoma City, Okla.	10	7	21	28
Tulsa, Okla.	9	10	21	30
Knoxville, Tenn.	11	8	21	23
Memphis, Tenn.	8	7	21	27

Region and SMSA	% Population over 65 CC	% Population over 65 OCC	% Population in Public School CC	% Population in Public School OCC
Nashville-David., Tenn.	9	9	21	23
Dallas, Texas	8	6	21	23
Fort Worth, Texas	10	6	22	23
Houston, Texas	6	5	22	24
San Antonio, Texas	7	4	22	27
Norfolk-Ports., Va.	7	4	19	26
Richmond, Va.	11	6	17	28
WEST	10	7	21	27
Phoenix, Ariz.	9	10	20	28
Anaheim-S.A.-G.G., Cal.	6	6	24	26
Fresno, Cal.	11	8	23	30
Los Angeles-L.B., Cal.	11	8	21	25
Sacramento, Cal.	11	6	20	28
San Bernardino-R., O., Cal.	9	12	25	25
San Diego, Cal.	9	9	25	25
San Francisco-Oak., Cal.	14	7	15	24
San Jose, Cal.	6	6	29	25
Denver, Colo.	11	5	19	28
Honolulu, Hawaii	7	3	23	0
Portland, Ore.	15	8	19	23
Salt Lake City, Utah	13	4	20	33
Seattle-Everett, Wash.	13	5	16	27
TOTAL (unweighted average)	11	8	19	24

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970* (PHC-2 Series), Table 4.; ACIR tabulation.

Table B-7
Per Capita Income, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC-OCC ratio
NORTHEAST	$3556	$3821	93
Hartford, Conn.	3826	4081	94
Wilmington, Del.	2959	3312	89
Washington, D.C.	4551	4732	96
Baltimore, Md.	2750	3790	73
Boston, Mass	3186	4103	78
Springfield, Mass.	3017	3122	97
Jersey City, N.J.	3317	3563	93
Newark, N.J.	3452	4859	71
Paterson-Clif.-Pas., N.J.	3500	4444	79
Albany-Schen. -Troy, N.Y.	4619	4406	105
Buffalo, N.Y.	3303	2704	122
New York City, N.Y.	4038	4610	88
Rochester, N.Y.	3774	4132	91
Syracuse, N.Y.	3870	3343	116
Allentown-Beth.-Easton, Pa.	3859	3267	110
Harrisburg, Pa.	3518	3559	99
Philadelphia, Pa.	3163	3836	82
Pittsburgh, Pa.	3486	3430	102
Providence, R.I.	3373	3313	102
MIDWEST	3416	3577	95
Chicago, Ill.	3805	4469	85
Gary-Hammond-E. Chi., Ind.	3044	3247	94
Indianapolis, Ind.	3659	3323	110
Wichita, Kans.	3366	2972	113
Detroit, Mich.	3640	3866	94
Flint, Mich.	3335	2901	115
Grand Rapids, Mich.	3285	3235	102
Minneapolis-St. Paul, Minn.	3874	3811	102
Kansas City, Mo.	3370	3961	85
St. Louis, Mo.	2946	3631	81
Omaha, Neb.	3753	3301	114
Akron, Ohio	3552	3379	105
Cincinnati, Ohio	3516	3421	103
Cleveland, Ohio	3098	4407	70
Columbus, Ohio	3509	3669	96
Dayton, Ohio	3229	3892	83
Toledo, Ohio	3366	3229	104
Youngstown-Warren, Ohio	3141	3197	98
Milwaukee, Wisc.	3421	4038	85
SOUTH	3233	2851	113
Birmingham, Ala.	2652	2780	95
Mobile, Ala.	2897	2176	133
Jacksonville, Fla.	3051	0	0
Miami, Fla.	2892	3590	81
Tampa-St. Pete., Fla.	3090	3001	103
Atlanta, Ga.	3565	3590	97
Louisville, Ky.	3153	3477	91
New Orleans, La.	3069	3120	98
Greensboro-W.S.-H.P., N.C.	3564	3036	117
Oklahoma City, Okla.	3286	3113	106
Tulsa, Okla.	3550	2593	137
Knoxville, Tenn.	2584	2822	92
Memphis, Tenn.	2903	2290	127
Nashville-David., Tenn.	2957	2284	129

Region and SMSA	CC	OCC	CC-OCC ratio
Dallas, Texas	3855	3357	115
Fort Worth, Texas	3278	3183	103
Houston, Texas	3559	3089	115
San Antonio, Texas	2547	3174	80
Norfolk-Ports., Va.	2595	2707	96
Richmond, Va.	3069	3472	88
WEST	3737	3463	108
Phoenix, Ariz.	3465	3174	109
Anaheim-S.A.-G.G., Cal.	3654	3882	94
Fresno, Cal.	3220	2780	116
Los Angeles-L. B., Cal.	4177	4015	104
Sacramento, Cal.	3845	3336	115
San Bernardino-R., O., Cal.	3416	3023	113
San Diego, Cal.	3583	3346	107
San Francisco-Oak., Cal.	4152	4089	102
San Jose, Cal.	3541	4465	79
Denver, Colo.	3654	3335	110
Honolulu, Hawaii	4332	3091	140
Portland, Ore.	3700	3414	108
Salt Lake City, Utah	3647	2800	130
Seattle-Everett, Wash.	3937	3734	105
TOTAL (unweighted average)	3465	3474	100

Source; "1970 Survey of Buying Power", *Sales Management,* June 10, 1971

When analyzed on a household basis, however, suburban income levels generally exceed those of central city areas. *(See Table B-8.)* Family units, then, tend to be wealthier in suburbs than in central city areas. Average central city household income in Northeastern central cities was 79 percent that of suburban household income in that region. Comparable percentages for Midwestern, Southern, and Western central cities were 84, 96, and 93 percent respectively. Twenty-seven central city areas had household income at least fifteen percent greater than outside central city areas.

Not only are central city household incomes generally lower than those in suburban areas, but also central cities have greater proportions of households earning under $3,000 and fewer proportions of households earning over $10,000 than their suburban areas. As of 1970, 17 percent of central city households were earning under $3,000 and 33 percent of households were earning over $10,000. In suburban areas, the comparable percentages were 12 and 41 percent respectively. Expressed another way, central cities had 42 percent more low income households than suburban areas and 20 percent fewer high income households. Central cities had relative overabundance of resource users and scarcity of resource producers.

Income distribution disparities were most pronounced in the East and Midwest and less severe in the South and West. Cities such as Hartford, Wilmington, Baltimore, Boston, Patterson-Clifton-Passaic, Newark, New York City, Detroit, Minneapolis-St. Paul, Kansas City, St. Louis, and Cleveland, had twice the proportion of poor households as their suburbs and less than three-quarters the proportion of higher income families. Only Louisville and Richmond in the South were in the same situation *(See Table B-9.)*

In sum, many central cities, while having per capita income levels that often are comparable with suburban areas, still do not contain family units with a high level of resources. Moreover, income distributions are more likely to be skewed by the presence of a large number of poorer households and relatively fewer numbers of higher income family units. Per capita income figures tend to obscure the fact of the concentration of lower income family units within most of the metropolitan areas studied.

Possibly a related indication of the poverty problem that many central cities face is the fact that crime rates in all but one of the 72 central cities studied exceed those of suburban areas. *(See Table B-19.)* On the average, crime rates in 49 SMSA's are 100 percent higher in the central city than in the suburbs. In eighteen central cities, crime rates were over 200 percent greater than suburban ones.

Housing Conditions

The declining income position of central cities is also reflected in the different characteristics of central city and suburban housing markets. Median values of owner-occupied housing units in central cities were only 84 percent of those in suburban areas. *(See Table B-11.)* In thirteen instances, central city median housing values were less than 75 percent of suburban ones. There were only ten areas where central city values exceeded suburban median housing values.

The relatively lower central city housing values could be attributed, in some measure, to the extraordinary rise in suburban house values between 1960 and 1970. The increase in the median value of owner-occupied housing in the 72 suburban areas averaged 47 percent between 1960 and 1970. The increase in central city values during the same period was only 31 percent. The fifty percent greater increase in suburban values insured that the suburban owner-occupied housing market would be substantially more expensive by 1970.

A similar, though less pronounced, trend also occurred with regard to rental housing. *(See Table B-12.)* Median monthly contract rents in central cities were only 84 percent of those in suburban areas. Median contract rents had increased by 65 percent between 1960 and 1970 in suburban areas. The 1960-1970 increase in central city areas was 45 percent. Suburban rents, thus, had also increased at nearly a 50 percent greater rate than city ones.

The disparities between median housing values and median contract rents and the increase in such housing costs were greater in the Northeast and Midwest than in the South and West.

The increasing expense of suburban housing is also pointed up in the fact that a considerable part of that housing market is most definitely

Table B-8
Average Household Income, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC-OCC ratio
NORTHEAST	$10325	$13089	79
Hartford, Conn.	10768	14965	71
Wilmington, Del.	8594	11429	75
Washington, D.C.	13077	13806	95
Baltimore, Md.	8577	13182	65
Boston, Mass.	9409	13500	69
Springfield, Mass.	9140	10540	87
Jersey City, N.J.	9810	10380	95
Newark, N.J.	10904	15626	70
Paterson-Clif.-Pas., N.J.	10354	14454	72
Albany-Schen.-Troy, N.Y.	13158	14538	91
Buffalo, N.Y.	9640	9171	105
New York City, N.Y.	11269	17062	66
Rochester, N.Y.	11025	14267	77
Syracuse, N.Y.	11241	18852	60
Allentown-Beth.-Easton, Pa.	10645	10431	102
Harrisburg, Pa.	9325	11366	82
Philadelphia, Pa.	9802	13105	75
Pittsburgh, Pa.	9860	11070	89
Providence, R.I.	9577	10938	88
MIDWEST	10271	12177	84
Chicago, Ill	11202	15396	73
Gary-Hammond-E. Chi., Ind.	9973	11638	86
Indianapolis, Ind.	11607	10869	107
Wichita, Kans.	10017	10336	97
Detroit, Mich.	11007	13456	82
Flint, Mich.	10531	10589	99
Grand Rapids, Mich.	10169	11455	89
Minneapolis-St. Paul, Minn.	10818	13902	78
Kansas City, Mo.	9657	11906	81
St. Louis, Mo.	8479	12177	70
Omaha, Neb.	11698	11816	99
Akron, Ohio	10634	11876	90
Cincinnati, Ohio	9915	11723	85
Cleveland, Ohio	9329	14373	65
Columbus, Ohio	10028	8513	118
Dayton, Ohio	10398	13243	79
Toledo, Ohio	10286	11389	90
Youngstown-Warren, Ohio	9072	11456	79
Milwaukee, Wisc.	10337	14109	73
SOUTH	9525	9964	96
Birmingham, Ala.	7914	9129	87
Mobile, Ala.	9754	7724	126
Jacksonville, Fla.	9928	0	0
Miami, Fla.	8004	10826	74
Tampa-St. Pete., Fla.	8261	8348	99
Atlanta, Ga.	10930	12307	89
Louisville, Ky.	9235	11972	77
New Orleans, La.	9531	11048	86
Greensboro-W.S.-H.P., N.C.	11388	9835	115
Oklahoma City, Okla.	9457	10127	93
Tulsa, Okla.	10405	5864	177
Knoxville, Tenn.	7935	9102	87
Memphis, Tenn.	9476	9105	104
Nashville-David., Tenn.	9405	7310	129

	CC	OCC	CC-OCC ratio
Dallas, Texas	11528	11265	102
Fort Worth, Texas	9895	10586	93
Houston, Texas	11094	10651	104
San Antonio, Texas	8692	12498	70
Norfolk-Ports., Va.	8849	10082	88
Richmond, Va.	9227	11533	80
WEST	10904	11666	93
Phoenix, Ariz.	10800	10482	103
Anaheim-S.A.-G.G., Cal.	11915	12600	95
Fresno, Cal.	9665	9609	101
Los Angeles-L.B., Cal.	11296	12231	92
Sacramento, Cal.	10677	11111	96
San Bernardino-R., O., Cal.	10636	9549	111
San Diego, Cal.	10677	10908	98
San Francisco-Oak., Cal.	10293	12706	81
San Jose, Cal.	12077	14337	84
Denver, Colo.	10249	11434	89
Honolulu, Hawaii	14330	13792	104
Portland, Ore.	9751	10889	90
Salt Lake City, Utah	10113	11147	91
Seattle-Everett, Wash.	10174	12533	81
TOTAL (unweighted average)	10211	11728	87

Source: "1970 Survey of Buying Power", *Sales Management*, June 10, 1971

Table B-9

Percent of Households with Incomes under $3000 and over $10,000, 72 Largest SMSA's, 1970

	under $3000			over $10,000		
Region and SMSA	**CC**	**OCC**	**CC-OCC ratio**	**CC**	**OCC**	**CC-OCC ratio**
NORTHEAST	16%	9%	177	33%	46%	72
Hartford, Conn.	11	5	220	37	52	71
Wilmington, Del.	22	11	200	21	35	60
Washington, D.C.	12	7	171	44	49	90
Baltimore, Md.	20	7	286	22	37	59
Boston, Mass.	19	5	380	28	49	57
Springfield, Mass.	16	13	123	27	31	87
Jersey City, N.J.	14	13	108	32	38	84
Newark, N.J.	10	5	200	36	58	62
Paterson-Clif.-Pas., N.J.	14	7	200	35	56	63
Albany-Schen.-Troy, N.Y.	14	10	140	48	59	81
Buffalo, N.Y.	17	9	189	30	47	64
New York City, N.Y.	14	7	200	39	60	65
Rochester, N.Y.	14	8	175	41	57	72
Syracuse, N.Y.	15	11	136	38	44	86
Allentown-Beth.-Easton, Pa.	14	11	127	35	44	80
Harrisburg, Pa.	18	10	180	31	41	76
Philadelphia, Pa.	17	9	189	32	47	68
Pittsburgh, Pa.	19	12	158	29	36	81
Providence, R.I.	20	13	154	28	39	72
MIDWEST	16	10	166	35	46	76
Chicago, Ill.	14	6	233	41	62	66
Gary-Hammond-E. Chi., Ind.	13	9	144	32	40	80
Indianapolis, Ind.	13	12	108	41	39	105
Wichita, Kans.	15	12	125	31	31	100
Detroit, Mich.	14	6	233	38	51	75
Flint, Mich.	14	11	127	37	37	100
Grand Rapids, Mich.	17	10	170	34	43	79
Minneapolis-St. Paul, Minn.	15	6	250	38	57	67
Kansas City, Mo.	20	10	200	30	46	65
St. Louis, Mo.	22	11	200	24	44	55
Omaha, Neb.	13	11	118	42	44	95
Akron, Ohio	14	10	140	37	44	84
Cincinnati, Ohio	21	11	191	29	43	67
Cleveland, Ohio	17	7	243	30	56	54
Columbus, Ohio	16	10	160	33	47	64
Dayton, Ohio	16	10	160	37	47	79
Toledo, Ohio	17	12	143	37	40	83
Youngstown-Warren, Ohio	16	10	160	30	36	83
Milwaukee, Wisc.	13	7	186	36	55	65
SOUTH	21	18	117	28	32	88
Birmingham, Ala.	25	23	109	22	24	92
Mobile, Ala.	20	23	87	31	20	155
Jacksonville, Fla.	17	0	0	31	0	0
Miami, Fla.	25	16	156	22	36	61
Tampa-St. Pete., Fla.	26	22	118	33	11	300
Atlanta, Ga.	18	10	180	34	48	70
Louisville, Ky.	20	10	200	28	43	65
New Orleans, La.	22	13	169	28	41	68
Greensboro-W.S.-H.P., N.C.	15	14	107	39	46	85
Oklahoma City, Okla.	20	15	133	28	30	93
Tulsa, Okla.	18	23	78	32	22	145
Knoxville, Tenn.	27	19	142	19	28	68
Memphis, Tenn.	20	26	77	31	26	119

Region and SMSA	under $3000 CC	OCC	CC-OCC ratio	over $10,000 CC	OCC	CC-OCC ratio
Nashville-David., Tenn.	20	28	71	29	19	153
Dallas, Texas	15	15	100	40	39	103
Fort Worth, Texas	19	11	173	32	38	84
Houston, Texas	16	16	100	39	39	100
San Antonio, Texas	20	18	111	26	33	79
Norfolk-Ports., Va.	26	18	144	23	29	79
Richmond, Va.	22	9	244	25	41	61
WEST	15	12	125	38	40	95
Phoenix, Ariz.	16	17	94	38	33	115
Anaheim-S.A.-G.G., Cal	11	11	100	47	46	102
Fresno, Cal.	20	19	105	32	29	82
Los Angeles, L.B., Cal.	18	12	150	38	46	121
Sacramento, Cal.	18	11	164	38	38	100
San Bernardino-R., O., Cal.	16	18	89	37	29	128
San Diego, Cal.	17	14	121	34	35	97
San Francisco-Oak., Cal.	19	14	136	34	49	69
San Jose, Cal.	12	9	133	49	59	83
Denver, Colo.	18	10	180	32	40	80
Honolulu, Hawaii	10	6	167	52	51	101
Portland, Ore.	21	14	150	31	38	82
Salt Lake City, Utah	19	9	211	31	38	82
Seattle-Everett, Wash.	18	10	180	36	31	116
TOTAL (unweighted average)	17	12	142	33	41	80

Source: "1970 Survey of Buying Power", *Sales Management,* June 10, 1971

Table B-10
Crime Rate Per 100,000 Population, 72 Largest SMSA's 1970

Region and SMSA	CC	OCC	CC-OCC ration
NORTHEAST	4584	1818	252
Hartford, Conn.	3134	2401	131
Wilmington, Del.	7450	1995	373
Washington, D.C.	7840	2770	283
Baltimore, Md.	6861	2433	282
Boston, Mass.	4514	2623	172
Springfield, Mass.	3489	1708	204
Jersey City, N.J.	2952	2328	127
Newark, N.J.	8311	2227	373
Paterson-Clif.-Pas., N.J.	3756	1861	202
Albany-Schen.-Troy, N.Y.	2313	1014	228
Buffalo, N.Y.	3951	1595	248
New York City, N.Y.	6580	2297	287
Rochester, N.Y.	4200	1270	331
Syracuse, N.Y.	3286	2248	146
Allentown-Beth.-Easton, Pa.	2168	859	252
Harrisburg. Pa.	4085	783	522
Philadelphia, Pa.	2329	1910	122
Pittsburgh, Pa.	5461	1082	505
Providence, R.I.	4417	1143	386
MIDWEST	4871	1890	258
Chicago, Ill.	3802	1844	206
Gary-Hammond-E. Chi., Ind.	5764	1876	307
Indianapolis, Ind.	3395	2455	138
Wichita, Kans.	4012	1721	233
Detroit, Mich.	8444	3296	256
Flint, Mich.	5439	1924	283
Grand Rapids, Mich.	3754	1307	287
Minneapolis-St. Paul, Minn.	5168	1907	271
Kansas City, Mo.	5718	2327	246
St. Louis, Mo.	7379	2202	335
Omaha, Neb.	3444	3475	99
Akron, Ohio	4812	1688	285
Cincinnati, Ohio	3844	1650	233
Cleveland, Ohio	5935	1376	431
Columbus, Ohio	4777	1709	280
Dayton, Ohio	6608	1566	422
Toledo, Ohio	3492	1356	258
Youngstown-Warren, Ohio	3946	1076	367
Milwaukee, Wisc.	2815	1147	245
SOUTH	4658	2005	232
Birmingham, Ala.	4441	1468	303
Mobile, Ala.	4835	1460	331
Jacksonville, Fla.	4971	0	0
Miami, Fla.	7137	4699	156
Tampa-St. Pete., Fla.	4428	2542	174
Atlanta, Ga.	5509	2487	222
Louisville, Ky.	5372	3082	186
New Orleans, La.	5960	2152	277
Greensboro-W.S.-H.P., N.C.	3755	1097	342
Oklahoma City, Okla.	3107	1659	187
Tulsa, Okla.	3820	1718	222
Knoxville, Tenn.	3241	1057	307
Memphis, Tenn.	3467	1318	263
Nashville-David., Tenn.	3952	1215	325

	CC	OCC	CC-OCC ration
Dallas, Texas	5968	1968	303
Fort Worth, Texas	3978	2358	169
Houston, Texas	4853	1527	318
San Antonio, Texas	4162	1476	282
Norfolk-Ports., Va.	4183	2477	169
Richmond, Va.	6012	1331	259
WEST	5368	3136	171
Phoenix, Ariz.	5069	3022	168
Anaheim-S.A., G.G., Cal.	4015	3391	118
Fresno, Cal.	5334	3234	165
Los Angeles, L.B., Cal.	6038	4262	142
Sacramento, Cal.	4602	3952	116
San Bernardino, R., O., Cal.	5554	3258	171
San Diego, Cal.	3341	2489	134
San Francisco, Oak., Cal.	7970	3930	203
San Jose, Cal.	3251	3112	105
Denver, Colo.	7351	2994	246
Honolulu, Hawaii	4942	2477	200
Portland, Ore.	6083	2787	218
Salt Lake City, Utah	5890	1969	299
Seattle-Everett, Wash.	5714	3030	189
TOTAL (unweighted average)	4833	2215	218

Source: F.B.I., *1970 Uniform Crime Reports*, Tables 5, 56.

Table B-11
Median House Values, 72 Largest SMSA's, 1960-1970

Region and SMSA	Median Value 1970 CC	Median Value 1970 OCC	CC-OCC ratio	% Increase in median value 1960-70 CC	% Increase in median value 1960-70 OCC	CC-OCC ratio
NORTHEAST	$16200	$21400	76	27%	43%	60
Hartford, Conn.	21000	25600	82	28	49	57
Wilmington, Del.	11300	18400	61	9	41	22
Washington, D.C.	21300	29300	73	38	66	58
Baltimore, Md.	10000	18900	53	11	51	22
Boston, Mass.	19500	24200	81	44	49	89
Springfield, Mass.	16400	15400	106	31	27	115
Jersey City, N.J.	16400	22000	75	43	48	90
Newark, N.J.	17200	28700	60	27	55	49
Paterson-Clif.-Pas., N.J.	24300	19300	78	43	30	143
Albany-Schen.-Troy, N.Y.	17400	19100	91	42	58	72
Buffalo, N.Y.	12900	18900	68	10	20	50
New York City, N.Y.	25700	29500	87	51	62	82
Rochester, N.Y.	15200	23100	66	25	48	52
Syracuse, N.Y.	16700	17800	94	16	37	43
Allentown-Beth.-Easton, Pa.	12900	16000	81	25	50	50
Harrisburg, Pa.	9300	16300	57	-8	36	N.C.
Philadelphia, Pa.	10700	18400	58	23	45	51
Pittsburgh, Pa.	12800	15900	81	16	26	62
Providence, R.I.	17000	18700	91	38	50	76
MIDWEST	15800	19300	82	23	37	62
Chicago, Ill.	21200	26000	82	18	38	47
Gary-Hammond-E. Chi., Ind.	15900	18900	84	16	36	44
Indianapolis, Ind.	14800	15100	98	23	34	68
Wichita, Kans.	13700	13100	105	29	21	138
Detroit, Mich.	15600	22100	71	30	57	53
Flint, Mich.	14600	18000	81	27	71	38
Grand Rapids, Mich.	14800	16800	88	27	39	69
Minneapolis-St. Paul, Minn.	18200	23500	77	32	52	62
Kansas City, Mo.	14100	17100	82	27	34	79
St. Louis, Mo.	13300	18300	73	11	27	41
Omaha, Neb.	14500	15900	91	24	37	65
Akron, Ohio	15100	20600	73	19	38	50
Cincinnati, Ohio	16600	18100	92	10	22	45
Cleveland, Ohio	16800	24700	68	21	29	72
Columbus, Ohio	17200	20700	83	29	32	91
Dayton, Ohio	15500	19800	78	25	41	61
Toledo, Ohio	16300	18900	86	39	49	79
Youngstown-Warren, Ohio	13900	17900	78	17	33	52
Milwaukee, Wisc.	18000	24200	74	19	38	50
SOUTH	14500	15900	91	36	54	67
Birmingham, Ala.	12700	13600	93	31	66	47
Mobile, Ala.	14200	11200	127	18	38	47
Jacksonville, Fla.	12100	0	0	11	0	0
Miami, Fla.	16700	19600	85	28	34	82
Tampa-St. Pete., Fla.	12400	14700	84	14	28	50
Atlanta, Ga.	17200	21000	82	43	65	66
Louisville, Ky.	13000	16500	79	25	33	76
New Orleans, La.	21000	19600	107	31	32	97
Greensboro-W.S.-H.P., N.C.	15800	14800	107	52	68	76
Oklahoma City, Okla.	13100	13800	95	34	42	81
Tulsa, Okla.	14500	9900	146	33	46	71
Knoxville, Tenn.	12100	13300	91	75	57	132

	Median Value 1970			% Increase in median value 60-70		
Region and SMSA	CC	OCC	CC-OCC ratio	CC	OCC	CC-OCC ratio
Memphis, Tenn.	14000	16500	85	36	53	68
Nashville-David., Tenn.	15800	15400	103	46	108	43
Dallas, Texas	16700	16900	99	48	71	68
Fort Worth, Texas	11400	15100	76	34	62	55
Houston, Texas	14500	14700	99	33	56	59
San Antonio, Texas	11600	17300	67	29	48	60
Norfolk-Ports., Va.	14900	19200	77	41	59	69
Richmond, Va.	15500	18800	82	51	52	98
WEST	21400	22600	95	43	53	81
Phoenix, Ariz.	16500	19200	86	44	56	79
Anaheim-S.A.-G.G., Cal.	23700	29200	81	56	77	73
Fresno, Cal.	15400	15500	99	31	44	70
Los Angeles-L.B., Cal.	25900	23500	110	54	55	98
Sacramento, Cal.	16900	18800	90	23	31	74
San Bernardino-R., O., Cal.	17800	17800	100	38	50	76
San Diego, Cal.	22500	22000	102	35	38	92
San Francisco-Oak., Cal.	25200	27400	92	57	65	88
San Jose, Cal.	25400	29000	88	56	66	85
Denver, Colo.	17000	20400	83	29	42	69
Honolulu, Hawaii	43200	33700	128	73	64	114
Portland, Ore.	14400	18600	77	33	60	55
Salt Lake City, Utah	16100	19000	85	20	32	63
Seattle-Everett, Wash.	19400	22900	85	46	62	74
TOTAL (unweighted average)	16700	19800	84	31	47	66

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970,* (PHC-2 Series), Table 5.

Table B-12
Median Contract Rent, 72 Largest SMSA's, 1960-1970

Region and SMSA	Median Contract Rent, 1970 CC	OCC	CC-OCC ratio	% Increase in median contract rent 1960-70 CC	OCC	CC-OCC ratio
NORTHEAST	$87	$106	82	45%	61%	74
Hartford, Conn.	109	133	82	63	NA	NA
Wilmington, Del.	76	101	75	23	60	38
Washington, D.C.	110	148	74	47	63	75
Baltimore, Md.	90	111	81	41	61	67
Boston, Mass.	99	111	89	65	NA	NA
Springfield, Mass.	74	76	97	36	NA	NA
Jersey City, N.J.	92	99	93	53	60	88
Newark, N.J.	104	127	82	63	59	107
Paterson-Clif.-Pas., N.J.	98	137	72	58	63	92
Albany-Schen.-Troy, N.Y.	75	80	94	50	67	74
Buffalo, N.Y.	71	91	78	29	34	,85
New York City, N.Y.	96	142	68	48	73	66
Rochester, N.Y.	100	141	71	52	139	37
Syracuse, N.Y.	94	104	90	42	76	55
Allentown-Beth.-Easton, Pa.	77	76	101	NA	NA	NA
Harrisburg, Pa.	72	78	93	NA	NA	NA
Philadelphia, Pa.	76	112	68	36	67	54
Pittsburgh, Pa.	79	74	107	39	42	93
Providence, R.I.	60	67	90	50	NA	NA
MIDWEST	87	108	81	34	60	56
Chicago, Ill.	108	142	76	39	60	65
Gary-Hammond-E. Chi., Ind.	82	106	77	28	61	46
Indianapolis, Ind.	96	94	102	NA	NA	NA
Wichita, Kans.	82	74	111	28	21	133
Detroit, Mich.	80	134	60	25	89	28
Flint, Mich.	106	113	94	54	92	59
Grand Rapids, Mich.	86	94	92	48	74	65
Minneapolis-St. Paul, Minn.	101	151	67	53	91	58
Kansas City, Mo.	81	99	82	33	55	60
St. Louis, Mo.	69	103	67	28	69	41
Omaha, Neb.	93	100	98	39	49	80
Akron, Ohio	86	109	79	34	68	50
Cincinnati, Ohio	80	83	96	40	38	105
Cleveland, Ohio	78	132	59	16	50	32
Columbus, Ohio	88	100	88	29	39	74
Dayton, Ohio	89	105	85	31	62	50
Toledo, Ohio	80	101	79	31	77	-
Youngstown-Warren, Ohio	71	88	81	22	57	39
Milwaukee, Wisc.	95	116,	82	32	51	63
SOUTH	77	88	81	49	71	69
Birmingham, Ala.	55	51	108	38	82	46
Mobile, Ala.	56	50	112	30	28	107
Jacksonville, Fla.	74	0	0	42	0	0
Miami, Fla.	100	140	71	47	63	75
Tampa-St. Pete., Fla.	74	95	78	37	51	73
Atlanta, Ga.	80	124	65	48	126	38
Louisville, Ky.	70	97	72	32	80	40
New Orleans, La.	69	96	72	35	88	40
Greensboro-W.S.-H.P., N.C.	72	59	122	47	64	73
Oklahoma City, Okla.	74	88	84	45	63	71
Tulsa, Okla.	87	58	150	53	35	151
Knoxville, Tenn.	69	57	121	61	39	156
Memphis, Tenn.	70	64	109	52	56	93

Region and SMSA	Median Contract Rent, 1970 CC	OCC	CC-OCC ratio	% Increase in median contract rent 1960-70 CC	OCC	CC-OCC ratio
Nashville-David., Tenn.	81	54	150	69	69	100
Dallas, Texas	110	109	101	77	106	73
Fort Worth, Texas	81	115	70	50	113	44
Houston, Texas	97	88	110	67	76	88
San Antonio, Texas	69	109	63	50	58	86
Norfolk-Ports., Va.	78	111	70	39	95	41
Richmond, Va.	78	105	74	53	62	85
WEST	106	117	90	56	67	84
Phoenix, Ariz.	103	110	94	56	83	57
Anaheim-S.A.-G.G., Cal.	133	142	94	66	82	80
Fresno, Cal.	89	72	124	53	57	93
Los Angeles-L.B., Cal.	106	115	92	51	55	93
Sacramento, Cal.	90	117	77	36	58	62
San Bernardino-R., O., Cal.	93	92	101	NA	NA	NA
San Diego, Cal.	113	122	93	47	56	84
San Francisco-Oak., Cal.	120	140	86	77	80	96
San Jose, Cal.	135	149	91	69	73	95
Denver, Colo.	94	123	76	42	58	72
Honolulu, Hawaii	132	126	105	89	62	144
Portland, Ore.	91	107	85	52	85	61
Salt Lake City, Utah	80	94	85	33	49	67
Seattle-Everett, Wash.	106	127	85	NA	NA	NA
TOTAL (unweighted average)	88	105	84	45	65	69

NA—Data not available.

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970,* (PHC-2 Series), Table 5.

beyond the reach of lower and lower-middle income families. By 1970, over 30 percent of all suburban owner-occupied housing was valued at more than $25,000. In central cities on the other hand, less than 20 percent of all owner-occupied housing was in such a category. *(See Table B-13.)*

In many metropolitan areas, high-income housing was almost non-existent in cities while being a substantial component of the suburban housing market. A few examples illustrate this point. In Wilmington, 5 percent of the city's owner-occupied housing was valued at more than $25,000 while such units comprised 25 percent of that area's suburban housing market. In Baltimore, 5 percent of the city and 27 percent of the suburban housing market were in homes valued at more than $25,000. Similar central city and suburban percentages were 6 and 22 percent in Buffalo; 6 and 41 percent in Rochester and 4 and 26 percent in Philadelphia. In the Hartford, Washington D.C., Newark, Patterson-Clifton-Passaic, New York City, Chicago, Anaheim-Santa Ana-Garden Grove, San Francisco-Oakland, and San Jose suburban areas, more than 50 percent of all owner-occupied housing units were valued at more than $25,000.

Inferences from Underlying Characteristics

Central cities, then, are growing more slowly than their suburbs. They are also becoming increasingly nonwhite and exhibit larger proportions of the poor and elderly than do their respective suburbs. This general "sorting out" of these population groups is also accompanied by higher central city crime rates, and a housing market designed to accommodate lower-income populations.

Suburban areas, on the other hand, are in the process of rapid growth. They have remained exclusively white and have more higher income families than do central cities. They are also characterized by a somewhat younger population, especially young families with school-age children. Suburban areas also exhibit lower crime rates and more expensive housing markets than their respective central city areas.

In many areas, central city and suburb seem to be two distinct communities. Whether this distinctiveness also extends to patterns of local finances will be analyzed in the following section.

FISCAL DISPARITIES: A HISTORICAL ANALYSIS

Data on metropolitan fiscal disparities have been collected for selected large metropolitan areas since 1957. With the present analysis of fiscal disparities in 72 metropolitan areas in 1970, trends in the level and nature of disparities between 1957 and 1970 can be noted for the 37 largest metropolitan areas. The following analysis will concern itself with historical trends in expenditures, taxes, and intergovernmental aid.

Expenditures

In both 1957 and 1970, per capita local government expenditures in the central city exceeded those in suburban areas by over 25 percent. Expenditure differences were most pronounced in the Northeast and Midwest, less so in the South and West. In seven Southern and Western metropolitan areas, expenditure differences of over 50 percent included Washington, D.C., Baltimore, Newark, Philadelphia, St. Louis, Cincinnati, Dayton, Atlanta, Louisville, and Denver. Areas with minor differences in total per capita expenditures were Patterson-Clifton-Passaic, Buffalo, Detroit, Minneapolis-St. Paul, New Orleans, Houston, San Antonio, and San Diego. *(See Table B-14.)*

Expenditure disparities result largely from the high level of non-educational expenditures in central cities. In 1957, the 37 central city areas had 82 percent higher per capita non-educational expenditures than their suburbs. By 1970 this disparity had increased to over 95 percent. In Northeastern and Midwestern central cities, the disparity averaged over 100 percent by 1970. Only two central cities, New Orleans and San Diego, had per capita non-educational expenditures that were less than 25 percent greater than comparable suburban expenditure levels. Central cities continue to carry far heavier non-educational expenditure burdens than do their surroundings suburbs—a phenomenon that has hardly changed over the space of 13 years. *(See Table B-15.)*

While cities have exhibited higher non-

Table B-13
Percent of Owner-Occupied Housing Valued at More than $25,000, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC-OCC ratio
NORTHEAST	16%	36%	44
Hartford, Conn.	24	52	46
Wilmington, Del.	5	25	20
Washington, D.C.	37	64	58
Baltimore, Md.	5	27	19
Boston, Mass.	21	46	46
Springfield, Mass.	6	21	29
Jersey City, N.J.	13	36	36
Newark, N.J.	11	62	18
Paterson-Clif.-Pas., N.J.	46	73	63
Albany-Schen.-Troy, N.Y.	18	25	72
Buffalo, N.Y.	6	22	27
New York City, N.Y.	52	64	81
Rochester, N.Y.	6	41	15
Syracuse, N.Y.	13	21	62
Allentown-Beth.-Easton, Pa.	11	18	61
Harrisburg, Pa.	4	18	22
Philadelphia, Pa.	4	26	15
Pittsburgh, Pa.	9	16	56
Providence, R.I.	15	21	71
MIDWEST	13	28	46
Chicago, Ill.	29	53	55
Gary-Hammond-E. Chi., Ind.	8	24	33
Indianapolis, Inc.	17	13	131
Wichita, Kans.	12	12	100
Detroit, Mich.	7	37	19
Flint, Mich.	7	24	29
Grand Rapids, Mich.	15	18	83
Minneapolis-St. Paul, Minn.	17	42	40
Kansas City, Mo.	12	20	60
St. Louis, Mo.	5	14	36
Omaha, Neb.	14	15	93
Akron, Ohio	12	32	38
Cincinnati, Ohio	16	22	73
Cleveland, Ohio	8	48	17
Columbus, Ohio	17	34	50
Dayton, Ohio	6	29	21
Toledo, Ohio	18	33	55
Youngstown-Warren, Ohio	8	21	38
Milwaukee, Wisc.	12	46	26
SOUTH	16	20	80
Birmingham, Ala.	7	18	38
Mobile, Ala.	16	7	229
Jacksonville, Fla.	9	0	0
Miami, Fla.	15	30	50
Tampa-St. Pete., Fla.	8	15	53
Atlanta, Ga.	25	36	69
Louisville, Ky.	9	16	56
New Orleans, La.	35	28	125
Greensboro-W.S.-H.P., N.C.	21	15	140
Oklahoma City, Okla.	13	11	118
Tulsa, Okla.	17	5	340
Knoxville, Tenn.	10	15	67
Memphis, Tenn.	14	29	48
Nashville-David., Tenn.	18	16	113

Region and SMSA	CC	OCC	CC-OCC ratio
Dallas, Texas	27	20	135
Fort Worth, Texas	12	14	86
Houston, Texas	20	17	118
San Antonio, Texas	9	26	35
Norfolk-Ports., Va.	13	28	46
Richmond, Va.	19	26	73
WEST	33	40	83
Phoenix, Ariz.	17	26	65
Anaheim-S.A.-G.G., Cal.	40	66	61
Fresno, Cal.	8	20	40
Los Angeles-L.B., Cal.	52	43	121
Sacramento, Cal.	17	24	71
San Bernardino-R., O., Cal.	18	22	82
San Diego, Cal.	37	35	106
San Francisco-Oak., Cal.	51	58	88
San Jose, Cal.	52	63	83
Denver, Colo.	18	29	62
Honolulu, Hawaii	91	82	111
Portland, Ore.	11	26	42
Salt Lake City, Utah	17	23	74
Seattle-Everett, Wash.	26	39	67
TOTAL (Unweighted average)	19	31	61

Source: U.S. Bureau of the Census, *General Demographic Trends for Metropolitan Areas, 1960 to 1970,* Table 5.

Table B-14
Per Capita Total Expenditures, 37 Largest SMSA's, 1957-1970

Region and SMSA	1957 CC	1957 OCC	CC-OCC ratio	1970 CC	1970 OCC	CC-OCC ratio
NORTHEAST	$207	$165	125	$613	$419	148
Washington, D.C.	239	131	182	1006	425	237
Baltimore, Md.	199	142	140	638	349	183
Boston, Mass.	273	181	151	531	365	146
Newark, N.J.	243	181	134	735	441	167
Paterson-Clif.-Pas., N.J.	155	157	99	381	418	91
Buffalo, N.Y.	193	210	92	528	520	102
New York City, N.Y.	257	260	99	894	644	139
Rochester, N.Y.	200	196	102	699	549	127
Philadephia, Pa.	165	138	120	495	325	152
Pittsburgh, Pa.	188	128	147	450	309	146
Providence, R.I.	160	99	162	392	265	148
MIDWEST	190	152	123	498	360	138
Chicago, Ill.	202	142	142	478	346	138
Indianapolis, Ind.	178	107	166	355	306	116
Detroit, Mich.	202	200	101	474	462	103
Minneapolis-St. Paul, Minn.	185	188	98	540	520	104
Kansas City, Mo.	186	112	166	485	347	140
St. Louis, Mo.	149	124	120	463	292	159
Cincinnati, Ohio	246	117	210	761	262	291
Cleveland, Ohio	183	193	95	512	368	139
Columbus, Ohio	166	156	106	398	290	137
Dayton, Ohio	167	129	130	456	291	157
Milwaukee, Wisc.	229	210	109	562	486	116
SOUTH	165	124	133	395	308	128
Miami, Fla.	226	169	140	481	387	124
Tampa-St. Pete, Fla.	159	89	183	372	288	129
Atlanta, Ga.	158	100	158	554	315	176
Louisville, Ky.	162	114	142	508	302	168
New Orleans, La.	163	120	136	334	325	103
Dallas, Texas	184	108	170	352	279	126
Houston, Texas	155	187	83	305	307	99
San Antonio, Texas	113	104	109	252	258	98
WEST	224	176	127	577	459	126
Los Angeles-L.B., Cal.	267	203	132	624	529	118
San Bernardino-R., O., Cal.	296	192	154	635	522	122
San Diego, Cal.	191	189	101	484	472	103
San Francisco-Oak., Cal.	223	230	97	768	596	129
Denver, Colo.	214	147	146	502	306	164
Portland, Ore.	203	131	155	486	328	148
Seattle-Everett, Wash.	174	142	123	524	471	111
TOTAL (unweighted average)	196	154	127	524	385	136
(weighted average)	213	170	125	600	419	143

Table B-15
Per Capita Noneducational Expenditures, 37 Largest SMSA's, 1957-1970

Region and SMSA	CC	OCC	CC-OCC ratio	CC	OCC	CC-OCC ratio
NORTHEAST	$153	$83	184	$427	$193	206
Washington, D.C.	189	47	402	745	181	412
Baltimore, Md.	140	71	197	416	134	310
Boston, Mass.	224	113	198	392	188	209
Newark, N.J.	167	93	180	519	236	220
Paterson-Clif.-Pas., N.J.	99	76	130	240	221	109
Buffalo, N.Y.	141	111	127	363	259	140
New York City, N.Y.	194	120	162	679	312	218
Rochester, N.Y.	147	104	141	474	224	212
Philadelphia, Pa.	116	66	176	321	122	263
Pittsburgh, Pa.	147	64	230	296	129	230
Providence, R.I.	114	49	233	253	119	213
MIDWEST	134	71	189	316	156	203
Chicago, Ill.	154	56	275	320	147	206
Indianapolis, Ind.	116	32	362	211	112	188
Detroit, Mich.	140	86	163	297	201	148
Minneapolis-St. Paul, Minn.	130	92	141	386	236	164
Kansas City, Mo.	123	57	216	316	153	207
St. Louis, Mo.	103	53	194	287	105	273
Cincinnati, Ohio	165	62	266	418	131	319
Cleveland, Ohio	133	108	123	302	173	172
Columbus, Ohio	114	62	184	265	111	239
Dayton, Ohio	120	51	235	291	120	236
Milwaukee, Wisc.	178	125	142	379	236	184
SOUTH	108	54	200	225	128	170
Miami, Fla.	156	99	158	279	185	151
Tampa-St. Pete, Fla.	112	42	267	210	128	144
Atlanta, Ga.	103	47	219	336	124	271
Louisville, Ky.	100	43	233	262	90	291
New Orleans, La.	117	81	144	208	202	105
Dallas, Texas	119	44	271	210	123	171
Houston, Texas	90	61	148	165	122	135
San Antonio, Tex.	65	17	382	129	60	202
WEST	140	88	159	380	227	167
Los Angeles-L.B., Cal.	169	110	154	431	303	142
San Bernardino-R., O., Cal.	149	112	133	368	290	127
San Diego, Cal.	119	99	120	298	245	122
San Francisco-Oak., Cal.	158	118	134	559	332	168
Denver, Colo.	141	73	193	332	111	299
Portland, Ore.	128	51	251	298	115	259
Seattle-Everett, Wash.	117	55	213	374	196	191
TOTAL (unweighted average)	135	74	182	341	174	196
(weighted average)	152	84	181	413	198	209

educational expenditure levels, suburban areas continue to outspend central cities for education on a per capita basis. In 1957, central city per capita educational expenditures were 76 percent of suburban expenditures. By 1970, they were 87 percent of the level of suburban expenditures. Indeed, only ten of the 37 central city areas did not narrow the per capita educational expenditure gap between 1957 and 1970. *(See Table B-16.)*

The relative specialization of central cities in non-educational expenditures and suburban areas in education is also reflected in their stability as a percent of total expenditures for central cities between 1957 and 1970. *(See Table B-17.)* On the average, education expenditures comprised about 30-35 percent of central city budgets between 1957 and 1970. During the same time span, education expenditures were generally about 55 percent of suburban budgets.

In summary, central cities continue to exhibit higher expenditure levels than suburbs. The main source of this expenditure disparity occurs due to the exceedingly high non-educational service demands in cities. Cities continue to spend only 30 to 40 percent of their budgets on education while suburbs routinely spend 55 to 65 percent of their budgets for education.

Revenue and Taxes

Tax levels also continue to be higher in central cities; however, the disparity in per capita taxes collected between central cities and suburbs was closed between 1957 and 1970. By 1970, per capita taxes collected were higher in the suburbs of Patterson-Clifton-Passaic, Buffalo and Chicago. Central city tax collections were 46 percent higher than suburban levels in 1957 and only 36 percent higher by 1970. Pittsburgh, Cincinnati, Kansas City, Dayton, Denver, Portland, and almost all Southern central cities had per capita tax collections that were 50 percent higher than suburban levels in both 1957 and 1970. *(See Table B-18.)*

Aid

One factor in holding down the per capita tax collection disparity between central city and suburb between 1957 and 1970 was the greater responsiveness of State and Federal aid to central city needs during this period. On a per capita basis, cities received no more aid than did suburbs in 1957; in 1970, they received 31 percent more aid. *(See Table B-19.)* Aid showed the greatest responsiveness to central city needs in the Northeast, the West, and the Midwest respectively. On the average, Southern central cities still continued to receive somewhat less per capita aid than did their suburbs in 1970.

Philadelphia, Pittsburgh, St. Louis, Louisville, San Francisco-Oakland, and Portland were central cities that were receiving substantially less per capita aid than their suburbs in 1957; yet, by 1970 they were receiving substantially more aid than their respective suburbs. On the other hand, Indianapolis and Milwaukee received more aid relative to their suburbs in 1957 than they did in 1970. Kansas City, Dallas and Seattle received substantially less aid than their suburbs in both 1957 and 1970.

The greater targeting of intergovernmental aid on central cities has resulted in their receiving larger amounts of aid in proportion to their total expenditures. In 1957, the central cities under study received an average of 20 percent of their expenditures in the form of aid; by 1970 this figure had risen to 32 percent. *(See Table B-20.)* The budgetary impact of State and Federal aid, however, was most notable in the Northeast and West, and less pronounced in the Midwest and South respectively. In seven metropolitan areas, aid as a percent of total expenditures was at least 35 percent higher in suburbs than in cities, the preponderance of unaided functions in those areas tended to keep the budgetary impact of such aid low. Suburbs were still able to concentrate on financing functions that drew relatively greater levels of external support from State and Federal sources than did central cities.

Inferences from Historical Analysis of Fiscal Disparity

In relation to their suburbs, central cities remain high expenditure jurisdictions. This distinction occurs due to the traditionally higher non-educational expenditure demands that cities continue to face. In turn, these expenditure demands have kept per capita taxes higher in central city than in suburb, although many suburban areas are now facing a level of tax pressure they have formerly avoided.

While per capita tax gaps between central

Table B-16
Per Capita Educational Expenditures, 37 Largest SMSA's, 1957-1970

Region and SMSA	1957 CC	1957 OCC	1957 CC-OCC ratio	1970 CC	1970 OCC	1970 CC-OCC ratio
NORTHEAST	$54	$83	65	$186	$226	82
Washington, D.C.	50	$84	60	261	244	107
Baltimore, Md.	59	71	83	222	215	103
Boston, Mass.	49	68	72	139	177	79
Newark, N.J.	76	88	86	216	205	105
Paterson-Clif.-Pas., N.J.	56	81	69	141	197	72
Buffalo, N.Y.	52	99	53	165	261	63
New York City, N.Y.	63	140	45	215	332	65
Rochester, N.Y.	53	92	58	225	325	69
Philadelphia, Pa.	49	72	68	174	203	86
Pittsburgh, Pa.	41	64	64	154	180	86
Providence, R.I.	46	50	92	139	146	95
MIDWEST	56	81	69	182	204	89
Chicago, Ill.	48	86	56	158	199	79
Indianapolis, Ind.	62	75	83	144	194	74
Detroit, Mich.	62	114	54	177	261	68
Minneapolis-St. Paul, Minn.	55	96	57	154	284	54
Kansas City, Mo.	63	55	115	169	194	87
St. Louis, Mo.	46	71	65	176	187	94
Cincinnati, Ohio	81	55	147	343	131	262
Cleveland, Ohio	50	85	59	210	195	108
Columbus, Ohio	52	94	55	133	179	74
Dayton, Ohio	47	78	60	165	171	97
Milwaukee, Wisc.	51	85	60	183	250	73
SOUTH	57	70	81	170	179	95
Miami, Fla.	70	70	100	202	202	100
Tampa-St. Pete, Fla.	47	47	100	162	162	100
Atlanta, Ga.	55	53	104	218	191	114
Louisville, Ky.	62	71	87	246	212	116
New Orleans, La.	46	39	118	126	123	102
Dallas, Texas	65	64	102	142	156	91
Houston, Texas	65	126	52	140	185	76
San Antonio, Texas	48	87	55	123	198	62
WEST	84	88	96	195	233	84
Los Angeles-L.B., Cal.	98	93	105	193	226	85
San Bernadino-R., O., Cal.	147	80	184	267	232	115
San Diego, Cal.	72	90	80	186	227	82
San Francisco-Oak., Cal.	65	112	58	209	264	79
Denver, Colo.	73	74	99	170	195	87
Portland, Ore.	75	80	94	188	213	88
Seattle-Everett, Wash.	57	87	66	150	275	55
TOTAL (unweighted average)	61	80	76	183	211	87
(Weighted average)	61	86	71	187	221	85

Table B-17

Education Expenditures as a Percent of Total Expenditures, 37 Largest SMSA's, 1957 and 1970

	1957		CC-OCC	1970		CC-OCC
	CC	OCC	ratio	CC	OCC	ratio
NORTHEAST	26%	49%	53	30%	54%	56
Washington, D.C.	21	64	33	26	57	46
Baltimore, Md.	30	50	60	35	62	56
Boston, Mass.	18	37	49	26	49	53
Newark, N.J.	31	49	63	29	46	63
Patterson-Clif-Pas., N.J.	36	52	69	37	47	71
Buffalo, N.Y.	27	47	57	31	50	62
New York City, N.Y.	25	54	46	24	52	46
Rochester, N.Y.	27	47	47	32	59	54
Philadephia, Pa.	30	52	58	35	63	56
Pittsburgh, Pa.	22	50	44	34	58	59
Providence, R.I.	39	51	57	35	55	64
MIDWEST	29	53	56	37	57	65
Chicago, Ill.	24	61	39	33	58	57
Indianapolis, Ind.	35	70	50	41	63	65
Detroit, Mich.	30	57	54	37	57	65
Minn., St. Paul, Minn.	30	51	59	29	55	53
Kansas City, Mo.	34	49	69	35	56	63
St. Louis, Mo.	31	57	54	38	64	59
Cincinnati, Ohio	33	47	70	45	50	90
Cleveland, Ohio	27	44	61	41	53	78
Columbus, Ohio	31	60	52	33	62	53
Dayton, Ohio	28	61	46	36	59	61
Milwaukee, Wisc.	22	41	54	33	51	60
SOUTH	35	56	63	43	58	74
Miami, Fla.	31	41	76	42	52	81
Tampa-St. Pete, Fla.	30	53	57	44	56	79
Atlanta, Ga.	35	53	66	39	61	64
Louisville, Ky.	38	62	61	48	70	69
New Orleans	28	33	85	38	38	100
Dallas, Texas	35	59	59	40	56	71
Houston, Texas	42	67	63	46	60	77
San Antonio, Texas	43	84	51	49	77	64
WEST	38	50	76	34	51	67
Los Angeles-L.B., Cal.	37	46	80	31	43	72
San Bernardino, R., O., Cal.	50	42	119	42	44	95
San Diego, Cal.	38	48	79	38	48	79
San Francisco-Oak., Cal.	29	49	59	27	44	61
Denver, Colo.	34	50	68	34	64	53
Portland, Ore.	37	61	61	39	65	60
Seattle-Ev., Wash.	33	61	54	29	58	50
TOTAL (unweighted average)	31	52	60	35	55	63
(weighted average)	29	51	57	31	53	59

Table B-18

Per Capita Tax Revenue, 37 Largest SMSA's, 1957-1970

Region and SMSA	1957 CC	1957 OCC	CC-OCC ratio	1970 CC	1970 OCC	CC-OCC ratio
NORTHEAST	$135	$101	134	$301	$236	128
Washington, D.C.	185	75	246	516	231	223
Baltimore, Md.	105	62	169	221	195	113
Boston, Mass.	161	116	139	369	263	140
Newark, N.J.	178	139	128	352	294	120
Paterson-Clif.-Pas., N.J.	118	116	102	221	278	79
Buffalo, N.Y.	116	112	104	236	238	99
New York City, N.Y.	167	153	109	384	356	108
Rochester, N.Y.	122	119	103	272	240	113
Philadelphia, Pa.	115	74	155	250	180	139
Pittsburgh, Pa.	113	68	166	294	161	183
Providence, R.I.	109	73	149	196	165	119
MIDWEST	115	79	146	253	177	143
Chicago, Ill.	138	99	139	244	251	97
Indianapolis, Ind.	106	68	156	226	151	150
Detroit, Mich.	127	95	134	255	210	121
Minneapolis-St. Paul, Minn.	115	75	153	227	152	149
Kansas City, Mo.	105	69	152	253	157	161
St. Louis, Mo.	98	75	131	267	174	153
Cincinnati, Ohio	137	65	211	251	134	187
Cleveland, Ohio	106	98	108	296	230	129
Columbus, Ohio	80	72	111	198	162	122
Dayton, Ohio	126	52	242	264	143	185
Milwaukee, Wisc.	126	104	121	306	179	171
SOUTH	88	53	166	183	118	155
Miami, Fla.	132	94	140	221	160	138
Tampa-St. Pete, Fla.	78	47	166	170	95	179
Atlanta, Ga.	98	44	223	252	122	207
Louisville, Ky.	92	59	156	181	119	152
New Orleans, La.	62	38	163	148	93	159
Dallas, Texas	101	43	235	211	107	197
Houston, Texas	85	70	121	181	172	105
San Antonio, Texas	54	26	208	102	77	132
WEST	125	79	158	281	218	129
Los Angeles-L.B., Cal.	155	102	152	329	272	121
San Bernardino-R., O., Cal.	141	81	174	261	257	102
San Diego, Cal.	93	76	122	206	198	104
San Francisco-Oak., Cal.	140	111	126	436	305	143
Denver, Colo.	131	68	193	272	180	151
Portland, Ore.	135	66	205	260	153	170
Seattle-Everett, Wash.	81	48	169	203	163	125
TOTAL (unweighted average)	117	80	146	258	190	136
(weighted average)	132	93	142	289	223	130

* Total locally raised tax revenue divided by population

Table B-19
Per Capita State and Federal Aid, 37 Largest SMSA's, 1957 and 1970

	CC	OCC	CC-OCC ratio	CC	OCC	CC-OCC ratio
NORTHEAST	$39	$36	108	$257	$128	177
Washington, D.C.	45	42	107	358	118	303
Baltimore, Md.	64	44	145	324	127	259
Boston, Mass.	77	43	179	224	73	307
Newark, N.J.	25	19	131	276	102	271
Patterson-Clif-Pas., N.J.	18	18	100	131	56	234
Buffalo, N.Y.	45	57	79	207	226	92
New York City, N.Y.	56	50	112	385	216	178
Rochester, N.Y.	42	55	76	235	238	99
Philadephia, Pa.	19	24	79	134	88	152
Pittsburgh, Pa.	17	30	57	111	95	117
Providence, R.I.	22	18	122	111	71	156
MIDWEST	38	36	106	130	113	115
Chicago, Ill.	29	19	153	146	86	170
Indianapolis, Ind.	33	26	127	85	93	91
Detroit, Mich.	61	57	107	189	131	144
Minn., St. Paul, Minn.	39	43	91	177	228	78
Kansas City, Mo.	18	26	69	90	100	90
St. Louis, Mo.	17	22	77	99	83	119
Cincinnati, Ohio	43	25	172	171	77	222
Cleveland, Ohio	34	32	106	87	66	132
Columbus, Ohio	39	39	100	75	77	97
Dayton, Ohio	40	42	95	108	83	130
Milwaukee, Wisc.	64	61	105	199	224	89
SOUTH	24	32	75	96	98	98
Miami, Fla.	21	21	100	137	129	106
Tampa-St. Pete, Fla.	27	23	117	119	108	110
Atlanta, Ga.	22	24	92	97	95	102
Louisville, Ky.	18	27	67	108	94	115
New Orleans	51	53	96	100	116	86
Dallas, Texas	20	32	63	54	70	77
Houston, Texas	18	41	44	61	73	84
San Antonio, Texas	18	33	55	89	96	93
WEST	63	63	100	199	172	116
Los Angeles-L.B., Cal.	75	80	94	209	227	92
San Bernardino, R., O., Cal.	105	73	144	278	215	129
San Diego, Cal.	58	64	91	194	202	96
San Francisco-Oak., Cal.	66	79	84	298	201	148
Denver, Colo.	52	46	113	149	94	159
Portland, Ore.	38	42	90	125	102	123
Seattle-Ev., Wash.	48	54	89	137	162	85
TOTAL (unweighted average)	40	40	100	164	126	130
(weighted average)	45	43	105	212	134	158

Table B-20
State and Federal Aid as a Percent of Total Expenditures, 37 Largest SMSA's, 1957-1970

Region and SMSA	1957 CC	1957 OCC	CC-OCC ratio	1970 CC	1970 OCC	CC-OCC ratio
NORTHEAST	18%	22%	96	35%	31%	113
Washington, D.C.	19	32	59	36	28	129
Baltimore, Md.	32	31	103	52	36	144
Boston, Mass.	28	24	117	42	20	210
Newark, N.J.	10	10	100	38	23	165
Patterson-Clif-Pas., N.J.	12	11	109	34	14	243
Buffalo, N.Y.	23	27	85	39	43	91
New York City, N.Y.	22	19	116	43	34	126
Rochester, N.Y.	21	28	75	34	43	79
Philadelphia, Pa.	12	17	71	27	27	100
Pittsburgh, Pa.	9	23	39	25	31	81
Providence, R.I.	14	18	78	29	27	107
MIDWEST	20	24	83	26	32	84
Chicago, Ill.	14	13	108	31	25	124
Indianapolis, Ind.	19	24	79	24	30	80
Detroit, Mich.	30	29	103	40	29	138
Minn., St. Paul, Minn.	21	23	91	33	44	75
Kansas City, Mo.	10	23	43	19	29	66
St. Louis, Mo.	11	18	61	22	28	79
Cincinnati, Ohio	17	21	81	23	30	77
Cleveland, Ohio	19	17	112	17	18	94
Columbus, Ohio	23	25	92	19	27	70
Dayton, Ohio	24	33	72	25	29	86
Milwaukee, Wisc.	28	29	97	35	46	76
SOUTH	15	27	56	24	32	75
Miami, Fla.	9	12	75	28	34	82
Tampa-St. Pete, Fla.	17	26	65	32	38	84
Atlanta, Ga.	14	24	58	18	30	60
Louisville, Ky.	11	24	46	21	31	67
New Orleans, La.	31	44	70	30	36	83
Dallas, Texas	11	30	36	15	25	60
Houston, Texas	12	22	54	20	24	83
San Antonio, Texas	16	32	50	36	37	97
WEST	28	35	80	34	37	92
Los Angeles-L.B., Cal.	28	39	72	34	40	85
San Bernardino-R., O., Cal.	35	38	92	44	41	107
San Diego, Cal.	30	34	88	40	43	93
San Francisco-Oak., Cal.	39	34	88	39	34	115
Denver, Colo.	24	31	77	30	31	97
Portland, Ore.	19	32	59	26	31	84
Seattle-Ev., Wash.	28	38	74	26	35	74
TOTAL (unweighted average)	19	26	73	31	33	94

Region and SMSA	Total Expenditures CC	Total Expenditures OCC	Educational Expenditures CC	Educational Expenditures OCC	Noneducational Expenditures CC	Noneducational Expenditures OCC
Nashville-David., Tenn.	378	172	168	115	210	57
Dallas, Texas	352	279	142	156	210	123
Fort Worth, Texas	315	286	150	168	165	118
Houston, Texas	305	307	140	185	165	122
San Antonio, Texas	252	258	123	198	129	60
Norfolk-Ports., Va.	453	293	160	174	293	119
Richmond, Va.	529	305	162	209	367	96
WEST	541	471	183	245	358	226
Phoenix, Ariz.	375	387	199	227	176	160
Anaheim-S.A.-G.G., Cal.	410	373	189	259	221	114
Fresno, Cal.	686	642	221	300	465	342
Los Angeles-L.B., Cal.	624	560	193	227	431	333
Sacramento, Cal.	683	566	213	261	470	305
San Bernardino-R., O., Cal.	635	522	267	232	368	290
San Diego, Cal.	484	472	186	227	298	245
San Francisco-Oak., Cal.	768	596	209	264	559	332
San Jose, Cal.	553	612	232	305	321	307
Denver, Colorado	502	306	170	195	332	111
Honolulu, Hawaii	198	0	0	0	198	0
Portland, Ore.	486	328	188	213	298	115
Salt Lake City, Utah	305	283	140	206	165	77
Seattle-Everett, Wash.	524	471	150	275	374	196
TOTAL (unweighted average)	478	365	174	204	304	161
(weighted average)	564	409	182	220	382	189

Source: ACIR tabulation

city and suburb have been reduced between 1957 and 1970, central cities continue to exhibit much higher tax rates than outside central city areas. Tax rate disparities still ran well over 35-40 percent in the Northeast, Midwest, and South in 1970. The deteriorating income position of large central cities means that they almost have to "run faster to keep pace" for in many areas the decrease in taxable resources means that even moderate expenditure demands are resulting in higher tax rates.

There is some indication that State and Federal aid is becoming responsive to central city needs. The level of per capita aid to central cities has increased markedly between 1957 and 1970. Many central cities now receive considerably higher levels of aid than before, suburbs continue to exhibit higher proportions of their budget in the form of intergovernmental aid than do their respective central cities. Suburban specialization in educational expenditures, a function which is the subject of sizeable State aid, has resulted in their meeting more of their budget from aid than central cities. As suburbs begin to experience more demands in the non-educational functions, their proportion of aid may decrease. Complementing this trend may be the future targeting of State and Federal aid on large city schools to meet their costly educational demands.

METROPOLITAN FISCAL DISPARITIES IN 1970: A STATIC ANALYSIS

Central cities continue to be high tax, high expenditure jurisdictions which are receiving greater amounts of external aid for their public service needs, but still not proportionately more than their surrounding suburbs. Suburban areas are facing more tax pressures and expenditure demands than formerly; however, they still exhibit relatively low effective tax levels and have thus far avoided extreme non-educational expenditure demands. This has also kept the lid on increasing suburban tax pressure as many non-educational functions would be the subject of less external aid, a factor which would have increased suburban taxes. In short, fiscal disparities continue to be a problem for the nation's largest central cities in spite of the greater levels of State and Federal aid being directed to cities between 1957 and 1970.

Prior to 1970, annual data on governmental finances had been gathered only for the 37 largest metropolitan areas. As of 1970, however, the U.S. Bureau of the Census broadened its annual survey of metropolitan finances to the 72 largest metropolitan areas. From published material and special Census tabulations, this section devotes itself to a cross-sectional analysis of fiscal disparities in these 72 areas. As in the previous section, the analysis will cover fiscal disparities in expenditures, taxes, and intergovernmental aid.

Expenditures

Per capita local government expenditures in the central city exceeded suburban outlays in the 72 metropolitan areas under study by more than $150. Differentials were greatest in the Northeast and Midwest and less pronounced in the West and South respectively. Only nine suburban areas had total expenditure levels that were greater than in their central city areas, and even in these outside central city (OCC) areas, expenditures were no greater than ten percent of central city (CC) levels. In contrast, twenty-two central cities showed total expenditures that were 50 percent or more higher than suburban ones. On the average, central city expenditures were 31 percent greater than suburban outlays. *(See Table B-21.)*

The gap in CC-OCC expenditures has largely arisen as a consequence of the high non-educational demands in central cities. In general, non-educational expenditures in cities were double those in OCC areas. At the same time, CC per capita educational spending levels were only 85 percent of suburban levels. The CC concentration on non-educational services has created the CC-OCC expenditure gap; the higher level of per capita suburban educational expenditures has kept the gap from becoming even more pronounced.

A closer examination of the expenditure data reveals that in no case did OCC non-educational expenditures surpass those of central cities; in nineteen instances, however, CC expenditures outran OCC expenditures in both education and non-education functions. In these latter cases, with the exception of a few

Table B-21
Per Capita Noneducational and Educational Expenditures, 72 Largest SMSA's, 1970

Region and SMSA	Total Expenditures		Educational Expenditures		Noneducational Expenditures	
	CC	OCC	CC	OCC	CC	OCC
NORTHEAST	$551	$405	$181	$223	$370	$182
Hartford, Conn.	501	399	208	214	293	185
Wilmington, Del.	679	303	251	210	428	93
Washington, D.C.	1006	425	261	244	745	181
Baltimore, Md.	638	349	222	215	416	134
Boston, Mass.	531	365	139	177	392	188
Springfield, Mass.	393	310	155	167	238	143
Jersey City, N.J.	454	357	128	109	326	248
Newark, N.J.	735	441	216	205	519	236
Paterson-Clif.-Pas., N.J.	381	418	141	197	240	221
Albany-Schen.-Troy, N.Y.	473	495	161	289	312	206
Buffalo, N.Y.	528	520	165	261	363	259
New York City, N.Y.	894	644	215	332	679	312
Rochester, N.Y.	699	549	225	325	474	224
Syracuse, N.Y.	561	586	159	318	402	268
Allentown-Beth.-Easton, Pa.	312	348	138	228	174	120
Harrisburg, Pa.	359	297	204	216	155	81
Philadelphia, Pa.	495	325	174	203	321	122
Pittsburgh, Pa.	450	309	154	180	296	
Providence, R.I.	392	265	139	146	253	119
MIDWEST	480	349	183	200	297	149
Chicago, Ill.	478	346	158	199	320	147
Gary-Hammond-E. Chi., Ind.	465	310	244	184	221	126
Indianapolis, Ind.	355	306	144	194	211	112
Wichita, Kansas	474	360	164	225	310	135
Detroit, Michigan	471	462	177	261	294	201
Flint, Michigan	747	449	289	240	458	209
Grand Rapids, Michigan	434	364	198	186	236	178
Minneapolis-St. Paul, Minn.	540	520	154	284	386	236
Kansas City, Mo.	485	347	169	194	316	153
St. Louis, Mo.	463	292	176	187	287	105
Omaha, Neb.	335	338	135	243	200	95
Akron, Ohio	412	310	148	186	264	124
Cincinnati, Ohio	761	262	343	131	418	131
Cleveland, Ohio	512	368	210	195	302	173
Columbus, Ohio	398	290	133	179	265	111
Dayton, Ohio	456	291	165	171	291	120
Toledo, Ohio	444	294	146	150	298	144
Youngstown-Warren, Ohio	335	236	135	144	200	92
Milwaukee, Wisconsin	562	486	183	250	379	236
SOUTH	383	270	153	164	230	106
Birmingham, Ala.	334	244	111	153	223	91
Mobile, Ala.	333	188	109	106	224	82
Jacksonville, Fla.	307	0	167	0	140	0
Miami, Fla.	481	387	202	202	279	185
Tampa-St. Pete., Fla.	372	288	162	162	210	128
Atlanta, Ga.	554	315	218	191	336	124
Louisville, Ky.	508	302	246	212	262	90
New Orleans, La.	334	325	126	123	208	202
Greensboro-W.S.H.P., N.C.	433	244	157	150	276	94
Oklahoma City, Okla.	296	264	118	157	178	107
Tulsa, Okla.	306	202	146	121	160	81
Knoxville, Tenn.	372	228	134	157	238	71
Memphis, Tenn.	370	240	135	183	235	57

Southern and Western metropolitan areas of Wilmington, Washington D.C., Newark, Philadelphia, Gary-Hammond-East Chicago, Flint, Cincinnati, St. Louis, Tulsa, and Nashville-Davidson, expenditure disparities reached some of their highest levels.

The two separate expenditure emphases in CC and OCC areas are apparent. Local school costs, generally make up 33-38 percent of central city expenditures while suburbs, on the average, utilize 50-60 percent of their budgets for education. Expressed another way, suburban areas exhibited a roughly 50 percent greater concentration on educational expenditures than did central city areas.

The differences in municipal expenditure burdens were greatest in Boston, New York, Syracuse, Cincinnati, Birmingham, Memphis, and Richmond metropolitan areas. They were least severe in Jersey City, Gary-Hammond-East Chicago, New Orleans, San Bernardino-Riverside-Ontario, and San Jose. OCC areas in these latter SMSA's were either as heavily urbanized as their central cities or of a rural character with more proportionate needs for non-educational expenditures. *(See Table B-22.)*

Revenue and Taxes

Per capita tax collections were 30 percent higher in central city than suburb in 1970. The differentials were higher in the Southern and Midwestern regions. This may indicate that Northeastern and Western suburban areas are becoming more urbanized while Midwestern and Southern central cities have suburban areas that experience less urgent expenditure demands. New York, Jersey City, and San Diego, for instance, are areas where tax levels are similar in central city and suburb. On the other hand, Kansas City, St. Louis, Cincinnati, Dayton, Atlanta, Knoxville, Nashville-Davidson, Dallas and Fort Worth are but a few of the metropolitan areas where central city taxes exceed those in suburban areas by at least 50 percent or more. *(See Table B-23.)*

Intergovernmental Aid

Central cities in 1970 received only $21 per capita more than did their suburbs—16 percent higher than OCC areas. Moreover, State and State-administered intergovernmental aid was often greater in suburban areas. Direct Federal aid, then, was the factor that often resulted in cities receiving more external aid than their suburbs. *(See Table B-24.)*

Aid was mostly central city directed in the Northeast, being 46 percent higher in central city than suburb; CC total aid only exceeded OCC aid by 10 percent or less in the Midwestern, Southern and Western regions. Baltimore, Boston, Patterson-Clifton-Passaic, Newark, and Cincinnati all received twice more total per capita aid than their suburbs. In Syracuse, Oklahoma City, Tulsa, Phoenix, and Salt Lake City, central city aid was 75 percent or less of suburban levels.

State and State-administered Federal intergovernmental aid was frequently higher in suburbs than in cities. Indeed, in 37 of the 72 metropolitan areas, this type of aid was of a higher level in suburban areas. By sharp contrast, direct Federal aid was higher in central cities in 68 of 72 cases. Even though of a far lesser magnitude, direct Federal aid seems more responsive to central city problems than State or State-administered Federal intergovernmental aid. State aid levels in central cities exceeded suburban levels by more than 50 percent in only seven areas.

While total per capita aid in central cities frequently surpasses suburban aid levels, educational aid is higher in suburban than central city areas, while non-educational aid tends to be highly concentrated within central cities. Thus, in 1970, per capita educational aid in the central cities of the 72 largest metropolitan areas was $65; in suburbs it averaged $83. In other words, central city per capita educational aid was 78 percent of suburban aid. On the other hand, central city non-educational aid was $37 greater than suburban aid, with average CC non-educational aid being $82 per capita and suburban aid being $45 per capita. Thus, non-educational aid was 82 percent greater in CC areas than in OCC areas. *(See Table B-25.)*

The aforementioned trend was fairly uniform among the metropolitan areas studied, for only 11 central cities received more per capita educational aid than their central cities. Central cities in both New Jersey and Pennsylvania almost invariably received more per capita aid in both education and non-education, while only Wilmington, Akron, Milwaukee, Tulsa,

Table B-22

Local School Expenditures as a Percent of Total Expenditures, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC/OCC ratio
NORTHEAST	33	56	59
Hartford, Conn.	41	54	76
Wilmington, Del.	40	73	55
Washington, D.C.	21	56	38
Baltimore, Md.	34	59	58
Boston, Mass.	26	53	49
Springfield, Mass.	39	54	72
Jersey City, N.J.	28	30	93
Newark, N.J.	28	44	64
Paterson-Clif.-Pas., N.J.	34	52	65
Albany-Schen.-Troy, N.Y.	32	57	56
Buffalo, N.Y.	34	49	69
New York City, N.Y.	20	50	40
Rochester, N.Y.	31	58	53
Syracuse, N.Y.	26	54	48
Allentown-Beth-Easton, Pa.	43	65	66
Harrisburg, Pa.	49	75	65
Philadelphia, Pa.	35	61	57
Pittsburgh, Pa.	34	56	61
Providence, R.I.	35	55	64
MIDWEST	36	57	63
Chicago, Ill.	30	56	54
Gary-Hammond-E. Chi., Ind.	55	59	93
Indianapolis, Ind.	41	64	64
Wichita, Kans.	35	60	58
Detroit, Mich.	37	52	71
Flint, Mich.	35	53	66
Grand Rapids, Mich.	42	51	82
Minneapolis-St. Paul, Minn.	29	55	53
Kansas City, Mo.	33	54	61
St. Louis, Mo.	30	63	48
Omaha, Neb.	40	70	57
Akron, Ohio	36	60	60
Cincinnati, Ohio	23	50	46
Cleveland, Ohio	39	58	67
Columbus, Ohio	33	61	54
Dayton, Ohio	38	59	64
Toledo, Ohio	34	51	67
Youngstown-Warren, Ohio	40	61	66
Milwaukee, Wisc.	29	54	54
SOUTH	38	61	52
Birmingham, Ala.	33	63	48
Mobile, Ala.	33	56	59
Jacksonville, Fla.	44	0	.0
Miami, Fla.	37	46	80
Tampa-St. Pete., Fla.	42	49	86
Atlanta, Ga.	39	59	66
Louisville, Ky.	23	70	33
New Orleans, La.	36	38	95
Greensboro-W.S.-H.P., N.C.	33	66	50
Oklahoma City, Okla.	40	59	68
Tulsa, Okla.	48	60	80
Knoxville, Tenn.	36	68	53
Memphis, Tenn.	36	76	47
Nashville-David., Tenn.	44	66	67
Dallas, Texas	39	55	71

Region and SMSA	CC	OCC	CC/OCC ratio
Fort Worth, Texas	45	56	80
Houston, Texas	45	59	76
San Antonio, Texas	43	77	56
Norfolk-Ports., Va.	35	58	60
Richmond, Va.	31	69	45
WEST	37	48	77
Phoenix, Ariz.	43	51	84
Anaheim-S.A.-G.G., Cal.	41	50	82
Fresno, Cal.	30	41	73
Los Angeles-L.B., Cal.	28	32	88
Sacramento, Cal.	24	41	59
San Bernadino-R., O., Cal.	37	39	95
San Diego, Cal.	33	44	75
San Francisco-Oak., Cal.	23	39	59
San Jose, Cal.	40	42	95
Denver, Colo.	34	61	56
Honolulu, Hawaii	0	0	0
Portland, Ore.	39	64	61
Salt Lake City, Utah	44	73	60
Seattle-Everett, Wash.	29	46	63
TOTAL (Unweighted average)	38	48	64
(weighted average)	29	51	57

Source: ACIR tabulation

Table B-23
Per Capita Total Tax and Aid Revenues, 72 Largest SMSA's, 1970

Region and SMSA	Total Revenues		Taxes		State and Federal Aid	
	CC	OCC	CC	OCC	CC	OCC
NORTHEAST	$535	$395	$272	$219	$193	$136
Hartford, Conn.	539	384	354	247	119	98
Wilmington, Del.	624	308	213	105	161	169
Washington, D.C.	952	414	516	231	358	118
Baltimore, Md.	615	367	221	195	329	127
Boston, Mass.	667	372	369	263	224	73
Springfield, Mass.	354	295	210	198	113	71
Jersey City, N.J.	440	366	240	238	130	99
Newark, N.J.	697	433	352	294	276	102
Paterson-Clif.-Pas., N.J.	379	367	221	278	131	56
Albany-Schen.-Troy, N.Y.	468	478	217	198	206	249
Buffalo, N.Y.	496	519	236	238	207	226
New York City, N.Y.	878	618	384	356	385	216
Rochester, N.Y.	594	521	272	240	235	238
Syracuse, N.Y.	529	580	272	249	208	282
Allentown-Beth.-Easton, Pa.	317	321	176	188	78	85
Harrisburg, Pa.	384	300	180	134	145	118
Philadelphia, Pa.	455	320	250	180	134	88
Pittsburgh, Pa.	426	300	294	161	111	95
Providence, R.I.	347	252	196	165	111	71
MIDWEST	453	349	240	176	126	114
Chicago, Ill.	427	389	244	251	146	86
Gary-Hammond-E. Chi., Ind.	434	312	266	175	134	98
Indianapolis, Ind.	358	302	226	151	85	93
Wichita, Kans.	412	429	209	199	146	137
Detroit, Mich.	521	421	255	210	189	131
Flint, Mich.	664	275	262	147	185	149
Grand Rapids, Mich.	425	332	177	144	153	125
Minneapolis-St. Paul, Minn.	487	461	227	152	177	228
Kansas City, Mo.	437	313	253	157	90	100
St. Louis, Mo.	474	293	267	174	99	83
Omaha, Neb.	382	373	195	190	105	133
Akron, Ohio	384	304	225	175	86	104
Cincinnati, Ohio	646	256	251	134	171	79
Cleveland, Ohio	463	365	296	230	87	66
Columbus, Ohio	338	278	198	162	75	77
Dayton, Ohio	453	299	264	143	108	83
Toledo, Ohio	400	292	228	146	86	109
Youngstown-Warren, Ohio	341	231	203	142	73	60
Milwaukee, Wisc.	570	463	306	179	199	224
SOUTH	348	256	164	107	105	102
Birmingham, Ala.	338	269	125	101	124	114
Mobile, Ala.	303	190	124	58	98	88
Jacksonville, Fla.	304	0	111	0	130	0
Miami, Fla.	478	387	221	160	137	129
Tampa-St. Pete., Fla.	392	180	170	95	119	108
Atlanta, Ga.	415	291	252	122	97	95
Louisville, Ky.	410	280	181	119	108	94
New Orleans, La.	328	278	148	93	100	116
Greensboro-W.S.-H.P., N.C.	402	218	155	63	160	121
Oklahoma City, Okla.	291	274	152	108	72	100
Tulsa, Okla.	289	243	160	112	67	101
Knoxville, Tenn.	358	210	163	81	129	106
Memphis, Tenn.	353	276	161	143	99	124

Region and SMSA	Total Revenues		Taxes		State and Federal Aid	
	CC	OCC	CC	OCC	CC	OCC
Nashville-David., Tenn.	326	198	163	62	103	90
Dallas, Texas	326	237	211	107	54	70
Fort Worth, Texas	291	240	157	96	73	79
Houston, Texas	299	308	181	172	61	73
San Antonio, Texas	247	215	102	77	89	95
Norfolk-Ports., Va.	412	285	138	127	164	125
Richmond, Va.	401	274	209	132	135	104
WEST	527	477	249	221	193	187
Phoenix, Ariz.	389	382	172	151	121	207
Anaheim-S.A.- G.G., Cal.	448	486	235	249	157	167
Fresno, Cal.	679	616	284	261	296	275
Los Angeles-L.B., Cal.	644	578	329	275	209	227
Sacramento, Cal.	681	561	284	233	251	242
San Bernardino-R., O., Cal.	619	553	261	257	278	215
San Diego, Cal.	487	477	206	198	194	201
San Francisco-Oak., Cal.	905	599	436	305	298	202
San Jose, Cal.	533	595	250	295	207	204
Denver, Colo.	523	313	272	180	149	94
Honolulu, Hawaii	198	0	135	0	29	0
Portland, Ore.	502	304	260	153	125	102
Salt Lake City, Utah	349	299	207	127	77	138
Seattle-Everett, Wash.	480	404	203	163	137	162
TOTAL (unweighted average)	468	367	235	181	151	130

SOURCE: ACIR tabulation

Table B-24
Per Capita State and Federal Aid, 72 Largest SMSA's, 1970

Region and SMSA	Total Aid		State Aid		Direct Federal Aid	
	CC	OCC	CC	OCC	CC	OCC
NORTHEAST	$193	$136	$148	$128	$45	$8
Hartford, Conn.	119	98	98	87	21	11
Wilmington, Del.	161	169	149	160	12	9
Washington, D.C.	358	118	---	92	358	26
Baltimore, Md.	329	127	296	118	33	9
Boston, Mass.	224	73	150	66	74	7
Springfield, Mass.	113	71	95	62	18	9
Jersey City, N.J.	130	99	126	87	4	12
Newark, N.J.	276	102	195	98	81	4
Paterson-Clif.-Pas., N.J.	131	56	118	55	13	1
Albany-Schen-Troy, N.Y.	206	249	-	245	16	4
Buffalo, N.Y.	206	226	198	220	9	6
New York City, N.Y.	385	216	365	211	20	5
Rochester, N.Y.	235	238	191	236	44	2
Syracuse, N.Y.	208	282	170	280	38	2
Allentown-Beth.-Easton, Pa.	78	85	58	84	20	1
Harrisburg, Pa.	145	118	127	114	18	4
Philadelphia, Pa.	134	88	109	84	25	4
Pittsburgh, Pa.	111	95	81	86	30	9
Providence, R.I.	111	71	75	62	36	9
MIDWEST	126	114	104	108	22	6
Chicago, Ill.	146	86	107	84	39	2
Gary-Hammond-E. Chi., Ind.	134	98	114	97	20	1
Indianapolis, Ind.	85	93	81	92	4	1
Wichita, Kans.	146	137	132	125	14	12
Detroit, Mich.	189	131	153	126	36	5
Flint, Mich.	185	149	156	146	29	3
Grand Rapids, Mich.	153	125	143	124	10	1
Minneapolis-St. Paul, Minn.	177	228	158	226	19	2
Kansas City, Mo.	90	100	72	88	18	12
St. Louis, Mo.	99	83	66	78	33	5
Omaha, Neb.	105	133	92	100	13	33
Akron, Ohio	86	104	62	103	24	1
Cincinnati, Ohio	171	79	121	61	50	18
Cleveland, Ohio	87	66	78	64	9	2
Columbus, Ohio	75	77	62	74	13	3
Dayton, Ohio	108	83	65	76	43	7
Toledo, Ohio	86	109	73	104	13	5
Youngstown-Warren, Ohio	73	60	59	59	14	1
Milwaukee, Wisc.	199	224	187	223	12	1
SOUTH	105	102	84	90	21	12
Birmingham, Ala.	124	114	91	108	33	6
Mobile, Ala.	98	88	85	83	13	5
Jacksonville, Fla.	130	-	121	-	9	-
Miami, Fla.	137	129	105	105	32	24
Tampa-St. Pete., Fla.	119	108	104	103	15	5
Atlanta, Ga.	97	95	78	87	19	8
Louisville, Ky.	108	94	59	88	49	6
New Orleans, La.	100	116	85	107	15	9
Greensboro-W.S.-H.P., N.C.	160	121	136	117	24	4
Oklahoma City, Okla.	72	100	57	85	15	15
Tulsa, Okla.	67	101	50	93	17	8
Knoxville, Tenn.	129	106	88	74	41	32
Memphis, Tenn.	99	124	87	110	12	14

	Total Aid		State Aid		Direct Federal Aid	
	CC	OCC	CC	OCC	CC	OCC
Nashville-David., Tenn.	103	90	72	82	31	8
Dallas, Texas	54	70	48	67	6	3
Fort Worth, Texas	73	79	61	67	12	12
Houston, Texas	61	73	57	72	4	1
San Antonio, Texas	89	95	73	74	16	21
Norfolk-Ports., Va.	164	125	130	104	34	21
Richmond, Va.	135	104	128	90	7	14
WEST	193	187	173	177	20	10
Phoenix, Ariz.	121	207	116	182	5	25
Anaheim-S.A., G.G., Cal.	157	167	154	162	3	5
Fresno, Cal.	296	275	281	271	15	4
Los Angeles, L.B., Cal.	209	227	202	222	7	5
Sacramento, Cal.	251	242	221	229	30	13
San Bernardino, R., O., Cal.	278	215	256	202	22	13
San Diego, Cal.	194	202	181	189	13	13
San Francisco, Oak., Cal.	298	201	222	191	76	10
San Jose, Cal.	207	204	200	197	7	7
Denver, Colo.	149	94	117	87	32	7
Honolulu, Hawaii	29	-	20	-	9	-
Portland, Ore.	125	102	104	95	21	7
Salt Lake City, Utah	77	138	64	128	13	10
Seattle-Everett, Wash.	137	162	117	154	20	8
TOTAL (unweighted average)	151	130	123	121	28	9

Source: ACIR Tabulation

* Includes Federal aid channeled through the State.

Table B-25
Per Capita Educational and Noneducational Aid, 72 Largest SMSA's, 1970

	Educational Aid		CC-OCC	Noneducational Aid		CC-OCC
	CC	OCC	ratio	CC	OCC	ratio
NORTHEAST	$65	$81	80	$128	$55	240
Hartford, Conn.	51	68	75	68	30	227
Wilmington, Del.	143	147	97	18	22	82
Washington, D.C.	49	83	59	309	35	883
Baltimore, Md.	75	81	93	254	46	552
Boston, Mass.	24	39	62	200	34	588
Springfield, Mass.	49	37	132	64	34	188
Jersey City, N.J.	42	28	150	88	71	124
Newark, N.J.	84	39	215	192	63	305
Paterson-Clif.-Pas., N.J.	42	34	124	89	22	405
Albany-Schen.-Troy, N.Y.	84	158	53	122	91	134
Buffalo, N.Y.	94	138	68	113	88	128
New York City, N.Y.	101	137	74	284	79	359
Rochester, N.Y.	98	162	60	137	76	180
Syracuse, N.Y.	71	202	35	137	80	171
Allentown-Beth-Easton, Pa.	48	63	76	30	22	136
Harrisburg, Pa.	110	81	136	35	37	113
Philadelphia, Pa.	95	64	148	39	24	163
Pittsburgh, Pa.	64	76	84	47	19	247
Providence, R.I.	37	45	82	74	26	285
MIDWEST	52	68	76	74	46	161
Chicago, Ill.	63	56	113	83	30	277
Gary-Hammond-E. Chi., Ind.	70	61	115	64	37	173
Indianapolis, Ind.	52	69	75	33	24	138
Wichita, Kans.	76	84	90	70	53	132
Detroit, Mich.	95	89	107	94	42	224
Flint, Mich.	99	107	93	86	42	205
Grand Rapids, Mich.	80	82	98	73	43	170
Minneapolis-St. Paul, Minn.	51	118	43	126	110	115
Kansas City, Mo.	51	80	64	39	20	195
St. Louis, Mo.	52	73	71	47	10	470
Omaha, Neb.	39	75	52	66	58	114
Akron, Ohio	31	43	72	55	61	90
Cincinnati, Ohio	36	70	51	135	9	1500
Cleveland, Ohio	36	33	109	51	33	155
Columbus, Ohio	25	47	53	50	30	167
Dayton, Ohio	40	60	67	68	23	296
Toledo, Ohio	30	53	57	56	56	100
Youngstown-Warren, Ohio	30	37	81	43	23	187
Milwaukee, Wisc.	40	57	70	159	167	95
SOUTH	66	82	80	39	20	155
Birmingham, Ala.	66	72	92	58	42	138
Mobile, Ala.	60	60	100	38	28	136
Jacksonville, Fla.	121	0	0	9	0	0
Miami, Fla.	120	120	100	17	9	136
Tampa-St. Pete., Fla.	101	101	100	18	7	189
Atlanta, Ga.	69	79	87	28	16	175
Louisville, Ky.	46	88	52	62	6	103
New Orleans, La.	59	75	79	41	41	100
Greensboro-W.S.-H.P., N.C.	80	85	94	80	36	222
Oklahoma City, Okla.	51	87	59	21	13	162
Tulsa, Okla.	49	65	75	18	36	50
Knoxville, Tenn.	58	78	74	71	28	254
Memphis, Tenn.	63	89	71	36	35	103
Nashville-David., Tenn.	65	67	97	38	23	165

	Educational Aid		CC-OCC	Noneducational Aid		CC-OCC
	CC	OCC	ratio	CC	OCC	ratio
Dallas, Texas	46	65	71	8	5	160
Fort Worth, Texas	68	68	100	5	11	45
Houston, Texas	56	70	80	5	3	167
San Antonio, Texas	77	86	90	12	9	133
Norfolk-Ports., Va.	77	115	67	87	10	870
Richmond, Va.	49	88	56	86	16	538
WEST	78	110	71	115	77	149
Phoenix, Ariz.	79	140	56	42	67	63
Anaheim-S.A.-G.G., Cal.	79	108	73	78	59	132
Fresno, Cal.	108	148	73	188	127	148
Los Angeles-L.B., Cal.	62	89	70	147	138	107
Sacramento, Cal.	86	136	63	165	106	156
San Bernardino-R., O., Cal.	111	113	97	167	102	164
San Diego, Cal.	88	86	102	106	116	91
San Francisco-Oak., Cal.	69	91	76	229	110	208
San Jose, Cal.	96	114	84	111	90	123
Denver, Colo.	49	67	73	100	27	370
Honolulu, AHawaii	0	0	0	29	0	0
Portland, Ore.	61	69	88	64	33	194
Salt Lake City, Utah	61	134	46	16	4	400
Seattle-Everett, Wash.	60	141	43	77	21	367
TOTAL (unweighted average)	65	83	78	86	47	183

Source: ACIR tabulation

Phoenix, and Ahaheim-Santa Ana-Garden Grove central cities received less per capita aid than their suburbs in both education and noneducational functions.

In regional terms, central cities received relatively high levels of education and non-education aid in the Northeast and West, lower but more equal proportions of education and non-education aid in the Midwest, and high educational and low non-educational assistance in the South. Suburban areas followed the same trends, but in almost all cases received more of their aid dollars for educational rather than noneducational purposes.

In most cases, intergovernmental aid did have a greater budgetary impact in suburb than central city. *(See Table B-26.)* Outside of the Northeast, only seven central cities had more of their total expenditures in the form of aid than did their suburban areas. In the Northeast, aid was a significantly greater proportion of expenditures in the central cities of the Washington, D.C., Baltimore, Boston, Springfield, Newark, Paterson-Clifton-Passaic, and New York metropolitan areas. On the other hand, most of the metropolitan suburbs in Ohio, Oklahoma, and Tennessee had a far greater proportion of their expenditures in the form of aid than did central cities in those States.

SCHOOL FINANCES IN THE 72 LARGEST METROPOLITAN AREAS

While fiscal disparities are an onerous problem for the nation's central cities, educational finances have become more balanced between central city and suburb over time. Past analyses by the Advisory Commission on Intergovernmental Relations[3] and Seymour Sacks[4], for example, noted substantial educational expenditure differentials between city and suburb in the 37 largest metropolitan areas. However, latest analysis indicates that central cities are now experiencing less severe educational disparities than was true in the past.

Looking at the 72 largest metropolitan areas, one finds that only 20 central cities spend less per pupil on education than their surrounding suburbs. *(See Table B-27.)* In forty-seven instances, central cities spend more than their suburbs for education, and in over twenty cases central cities spend $100 per pupil more than their suburbs. Wilmington, Flint, and Grand Rapids exhibited some of the most extreme central city advantages in educational expenditure. Only Patterson-Clifton-Passaic and San Jose suburbs outspent their central cities by more than $150 per pupil.[5]

A number of central cities have redressed the expenditure imbalances that they formerly labored under, namely Buffalo, New York City, Philadelphia, Cleveland, Milwaukee, Atlanta, Louisville, Los Angeles, and San Diego. *(See Table B-28.)* Average per pupil expenditures are now roughly comparable between central city and suburb in many of the metropolitan areas studied.

The reduction of expenditure differentials, however, has not resulted from singularly greater external aid for central city educational needs. Even as of 1972, forty-three suburban areas received more per pupil aid than their city counterparts, with aid imbalances being most frequent in Southern and Western areas. In Northeastern and Midwestern metropolitan areas, school aid per pupil was $33 and $11 greater in central city than suburban areas. In Southern and Western metropolitan areas, suburban areas averaged $29 and $40 per pupil more than central cities. Central city per pupil aid differentials of over $100 per pupil occurred in Wilmington, Jersey City, Newark, New York City, Harrisburg, Philadelphia, Chicago, and Detroit. Similar suburban differentials occurred in the Syracuse, Allentown, Minneapolis-St. Paul, Richmond, San Jose, and Seattle metropolitan areas. *(See Table B-29.)*

The somewhat greater concentration of state aid in suburban areas has resulted in most suburban areas having more of their education budget in the form of aid than their central city counterparts. Only 13 of the 72 central city areas received more of their education budget in the form of aid than did suburban areas. Aid as a percent of total current school expenditures was highest in Southern, Western, Northeastern, and Midwestern metropolitan areas respectively. Aid seemed most suburban directed in the South and relatively most cen-

Table B-26
State and Federal Aid as a Percent of Total Expenditures, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC/OCC
NORTHEAST	35%	32%	109
Hartford, Conn.	36	34	106
Wilmington, Del.	24	25	96
Washington, D.C.	36	28	129
Baltimore, Md.	52	36	144
Boston, Mass.	42	20	210
Springfield, Mass.	29	23	126
Jersey City, N.J.	28	28	100
Newark, N.J.	38	23	165
Paterson-Clif.-Pas., N.J.	34	14	243
Albany-Schen.-Troy, N.Y.	46	50	92
Buffalo, N.Y.	39	43	91
New York City, N.Y.	43	34	126
Rochester, N.Y.	34	43	79
Syracuse, N.Y.	37	49	76
Allentown-Beth.-Easton, Pa.	25	24	104
Harrisburg, Pa.	37	43	86
Philadelphia, Pa.	27	27	100
Pittsburgh, Pa.	25	31	81
Providence, R.I.	29	27	108
MIDWEST	27	35	77
Chicago, Ill.	31	25	124
Gary-Hammond-E. Chi., Ind.	30	32	94
Indianapolis, Ind.	24	30	80
Wichita, Kans.	31	39	79
Detroit, Mich.	40	59	68
Flint, Mich.	25	33	76
Grand Rapids, Mich.	35	34	103
Minneapolis-St. Paul, Minn.	33	44	75
Kansas City, Mo.	19	29	66
St. Louis, Mo.	22	28	79
Omaha, Neb.	32	40	80
Akron, Ohio	21	33	64
Cincinnati, Ohio	23	30	77
Cleveland, Ohio	17	18	94
Columbus, Ohio	19	27	70
Dayton, Ohio	26	29	90
Toledo, Ohio	20	38	53
Youngstown-Warren, Ohio	22	45	49
Milwaukee, Wisc.	35	46	76
SOUTH	26	40	65
Birmingham, Ala.	37	47	79
Mobile, Ala.	29	47	62
Jacksonville, Fla.	42	0	0
Miami, Fla.	28	34	82
Tampa-St. Pete., Fla.	32	37	86
Atlanta, Ga.	18	30	60
Louisville, Ky.	21	21	100
New Orleans, La.	30	36	83
Greensboro-W.S.-H.P., N.C.	36	55	65
Oklahoma City, Okla.	25	38	66
Tulsa, Okla.	22	50	44
Knoxville, Tenn.	30	46	65
Memphis, Tenn.	27	52	52
Nashville-David., Tenn.	27	53	51
Dallas, Texas	15	18	83

Region and SMSA	CC	OCC	CC/OCC
Fort Worth, Texas	23	28	82
Houston, Texas	20	24	83
San Antonio, Texas	36	37	97
Norfolk-Ports., Va.	36	42	86
Richmond, Va.	26	64	41
WEST	35	38	92
Phoenix, Ariz.	42	40	105
Anaheim-S.A.-G.G., Cal.	38	36	106
Fresno, Cal.	43	43	100
Los Angeles-L.B., Cal.	34	40	85
Sacramento, Cal.	36	43	84
San Bernardino-R., O., Cal.	45	41	110
San Diego, Cal.	40	43	93
San Francisco-Oak., Cal.	39	34	115
San Jose, Cal.	37	33	112
Denver, Colo.	30	31	97
Honolulu, Hawaii	15	--	--
Portland, Ore.	26	31	84
Salt Lake City, Utah	25	49	51
Seattle-Everett, Wash.	26	35	74
TOTAL (unweighted average)	30	36	83

Source: ACIR tabulation

Table B-27
Current Expenditure Per Pupil, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC/OCC
NORTHEAST	$876	$843	104
Hartford, Conn.	917	768	119
Wilmington, Del.	1007	724	139
Washington, D.C.	843	881	96
Baltimore, Md.	822	759	108
Boston, Mass.	877	726	121
Springfield, Mass.	752	702	107
Jersey City, N.J.	724	723	100
Newark, N.J.	937	902	104
Paterson-Clif.-Pas., N.J.	734	911	81
Albany-Schen.-Troy, N.Y.	1081	1078	100
Buffalo, N.Y.	931	986	94
New York City, N.Y.	1163	1227	95
Rochester, N.Y.	1267	910	139
Syracuse, N.Y.	955	1016	94
Allentown-Beth-Easton, Pa.	624	776	80
Harrisburg, Pa.	993	716	139
Philadelphia, Pa.	985	816	121
Pittsburgh, Pa.	949	742	128
Providence, R.I.	867	657	132
MIDWEST	831	688	121
Chicago, Ill	817	773	106
Gary-Hammond-E. Chi., Ind.	891	630	141
Indianapolis, Ind.	677	713	95
Wichita, Kans.	744	658	113
Detroit, Mich.	898	837	107
Flint, Mich.	1006	731	138
Grand Rapids, Mich.	1073	704	152
Minneapolis-St. Paul, Minn.	927	821	113
Kansas City, Mo.	612	665	92
St. Louis, Mo.	709	738	96
Omaha, Neb.	645	704	92
Akron, Ohio	684	626	109
Cincinnati, Ohio	830	567	146
Cleveland, Ohio	896	768	117
Columbus, Ohio	638	522	122
Dayton, Ohio	763	602	127
Toledo, Ohio	638	665	96
Youngstown-Warren, Ohio	676	569	119
Milwaukee, Wisc.	857	772	111
SOUTH	625	563	111
Birmingham, Ala.	473	461	103
Mobile, Ala.	445	406	110
Jacksonville, Fla.	575	---	
Miami, Fla.	815	815	100
Tampa-St. Pete., Fla.	722	722	100
Atlanta, Ga.	804	619	130
Louisville, Ky.	644	639	101
New Orleans, La.	560	532	105
Greensboro-W.S.-H.P., N.C.	621	535	116
Oklahoma City, Okla.	509	524	97
Tulsa, Okla.	637	402	158
Knoxville, Tenn.	612	612	100
Memphis, Tenn.	567	469	121
Nashville-David., Tenn.	698	401	174
Dallas, Texas	553	511	108

Region and SMSA	CC	OCC	CC/OCC
Fort Worth, Texas	577	497	116
Houston, Texas	573	617	93
San Antonio, Texas	458	492	93
Norfolk-Ports., Va.	759	562	135
Richmond, Va.	840	883	95
WEST	771	753	102
Phoenix, Ariz.	674	759	89
Anaheim-S.A.-G.G., Cal.	674	759	89
Fresno, Cal.	778	834	93
Los Angeles-L.B., Cal.	748	737	101
Sacramento, Cal.	769	767	100
San Bernardino-R., O., Cal.	740	769	96
San Diego, Cal.	624	535	117
San Francisco-Oak., Cal.	1122	887	126
San Jose, Cal.	715	946	76
Denver, Colo.	836	594	141
Honolulu, Hawaii	745	---	---
Portland, Ore.	832	774	107
Salt Lake City, Utah	660	564	117
Seattle-Everett, Wash.	848	862	98
TOTAL (unweighted average)	776	708	110

Table B-28
Current Expenditure Per Pupil—Selected Metropolitan Areas, 1962 and 1970

Region and SMSA	1962 CC	1962 OCC	1962 CC-OCC ratio	1970 CC	1970 OCC	1970 CC-OCC ratio
NORTHEAST	$447	$521	86	$991	$883	112
Baltimore, Md.	336	421	87	822	759	108
Boston, Mass.	385	465	83	877	726	121
Newark, N.J.	496	522	95	937	902	104
Buffalo, N.Y.	447	561	80	931	986	94
New York City, N.Y.	537	684	70	1163	1227	103
Rochester, N.Y.	580	573	85	1267	910	139
Philadephia, Pa.	398	493	81	985	816	121
Pittsburgh, Pa.	368	451	82	949	742	128
MIDWEST	485	533	91	983	901	109
Chicago, Ill.	408	474	86	817	773	106
Indianapolis, Ind.	353	468	75	677	713	95
Detroit, Mich.	462	434	106	898	837	107
Minn., St. Paul, Minn.	414	442	94	927	821	113
Kansas City, Mo.	409	351	117	612	665	92
St. Louis, Mo.	387	434	89	709	738	96
Cincinnati, Ohio	373	398	94	830	567	146
Cleveland, Ohio	371	459	81	896	768	117
Columbus, Ohio	327	332	98	638	552	116
Milwaukee, Wisc.	378	469	81	857	772	111
SOUTH	288	355	81	627	584	107
Atlanta, Ga.	273	288	95	804	619	130
Louisville, Ky.	301	478	63	644	639	101
New Orleans, La.	272	233	117	560	532	105
Dallas, Texas	302	325	93	553	511	108
Houston, Texas	290	450	64	573	617	93
WEST	426	486	88	835	732	114
Los Angeles-L.B., Cal.	426	555	77	748	737	101
San Diego, Cal.	414	539	77	624	535	117
San Francisco-Oak., Cal.	468	546	86	1122	887	126
Denver, Colo.	418	381	110	836	594	141
Portland, Ore.	422	480	88	832	774	107
Seattle-Everett, Wash.	410	416	99	848	862	98
TOTAL (unweighted average)	428	504	85	911	838	109

Table B-29
State Aid Per Pupil, 72 Largest SMSA's, 1970

Region and SMSA	CC	OCC	CC/OCC
NORTHEAST	$404	$386	105
Hartford, Conn.	247	307	80
Wilmington, Del.	735	615	119
Washington, D.C.	251	264	95
Baltimore, Md.	337	341	98
Boston, Mass.	166	137	121
Springfield, Mass.	227	152	149
Jersey City, N.J.	289	180	160
Newark, N.J.	393	189	207
Paterson-Clif.-Pas., N.J.	256	173	147
Albany-Schen.-Troy, N.Y.	594	754	78
Buffalo, N.Y.	605	601	100
New York City, N.Y.	755	576	131
Rochester, N.Y.	608	682	89
Syracuse, N.Y.	448	751	59
Allentown-Beth-Easton, Pa.	224	325	68
Harrisburg, Pa.	575	415	138
Philadelphia, Pa.	561	301	186
Pittsburgh, Pa.	436	356	122
Providence, R.I.	208	216	96
MIDWEST	253	265	95
Chicago, Ill	351	247	142
Gary-Hammond-E. Chi., Ind.	294	245	120
Indianapolis, Ind.	257	299	85
Wichita, Kans.	319	276	115
Detroit, Mich.	511	359	142
Flint, Mich.	432	387	111
Grand Rapids, Mich.	439	344	127
Minneapolis-St. Paul, Minn.	324	426	76
Kansas City, Mo.	201	305	65
St. Louis, Mo.	219	317	69
Omaha, Neb.	187	204	91
Akron, Ohio	136	169	80
Cincinnati, Ohio	182	294	61
Cleveland, Ohio	179	153	116
Columbus, Ohio	108	171	63
Dayton, Ohio	152	216	70
Toledo, Ohio	153	226	67
Youngstown-Warren, Ohio	155	159	97
Milwaukee, Wisc.	214	247	86
SOUTH	307	320	96
Birmingham, Ala.	307	304	100
Mobile, Ala.	298	296	100
Jacksonville, Fla.	493	---	---
Miami, Fla.	529	529	100
Tampa-St. Pete., Fla.	541	541	100
Atlanta, Ga.	281	321	87
Louisville, Ky.	289	325	88
New Orleans, La.	308	372	82
Greensboro-W.S.-H.P., N.C.	360	347	103
Oklahoma City, Okla.	229	272	84
Tulsa, Okla.	216	205	105
Knoxville, Tenn.	269	278	96
Memphis, Tenn.	292	290	100
Nashville-David., Tenn.	265	284	93
Dallas, Texas	215	281	76

Region and SMSA	CC	OCC	CC/OCC
Fort Worth, Texas	265	267	99
Houston, Texas	252	283	89
San Antonio, Texas	302	243	124
Norfolk-Ports., Va.	333	362	91
Richmond, Va.	285	278	102
WEST	347	380	91
Phoenix, Ariz.	390	447	87
Anaheim-S.A.-G.G., Cal.	317	398	79
Fresno, Cal.	474	483	98
Los Angeles-L.B., Cal.	284	346	82
Sacramento, Cal.	392	452	86
San Bernardino-R., O., Cal.	429	422	101
San Diego, Cal.	318	294	108
San Francisco-Oak., Cal.	415	345	120
San Jose, Cal.	336	444	75
Denver, Colo.	225	225	100
Honolulu, Hawaii	745	---	---
Portland, Ore.	299	301	99
Salt Lake City, Utah	290	377	77
Seattle-Everett, Wash.	347	508	68
TOTAL	326	334	98

tral city directed in the Northeast, where several cities received considerable budgetary relief from educational aid.

In summary, it appears that suburban specialization in the education function may have reached the point of diminishing returns. The significantly greater population growth and enrollment ratios in the suburbs together with continued high nonpublic enrollment in central cities may have created a situation where suburbs are increasingly reluctant to compete with cities in educational finance and overall tax competition. Presently, a number of central cities can raise more money with a given level of property tax effort than suburban areas.[6] Thus, in some cases cities can have somewhat lower educational tax effort and still raise as much per pupil as suburban areas. When cities receive additional aid for extraordinary educational demands, they are often in the position of having higher average expenditures per pupil than suburbs as a group.

GENERAL CONCLUSIONS

Census data substantiates the fact that American metropolitan areas face urban growth problems. Most suburban areas are growing much faster than their central cities. Taxable wealth and personal income are growing faster in suburban areas than in their central cities, and the disparity continues to widen. As suburbs grow, central cities, for the most part face the problems of population loss; increasing concentrations of poor, nonwhite, and elderly; ever-increasing obsolescence in housing; and above average crime rates. Combined with these general trends is the fact that central cities frequently have higher expenditures and higher tax levels than suburban areas. In many cases these higher levels of expenditures and taxes are being financed from a relatively static or diminishing tax base. Intergovernmental aid has begun to offset this trend with Federal aid as the prime factor in directing more aid to central cities. Nonetheless, aid systems continue to have a relatively greater impact in suburbs than in central cities, frequently reinforcing educational expenditure levels in suburbs and non-educational outlays in central cities.

Census data also indicate that central cities are faced with rising demands for expenditures and a set of expenditure demands that magnify their problems. These demands result in increased taxes, high tax rates and extremely high levels of non-educational expenditures. These fiscal trends are at least one factor in the flight of higher and middle income households to suburban areas where taxes are lower and where there is a greater emphasis on educational rather than non-educational programs.

Suburbs face mounting urban growth problems themselves. While not experiencing drastic changes in the socio-economic character of their population, they are faced with the prospect of developing an urban infrastructure which carries with it substantial expenditure demands. Thus, while tax levels and tax rates remain higher in central cities, suburbs have experienced percentage increases in taxes and expenditures that are remarkably similar to those of central cities. It is beginning to appear that many suburbs can no longer devote ever increasing proportions of their budget to educational programs and defer non-educational expenditure requirements.

If there are general trends to central city and suburban problems in matters of urban growth and fiscal disparities, it must be noted that there are sufficient exceptions to the problem to require a multi-faceted urban growth policy on the part of all three levels of government in the Federal system. For example, the bleak picture of the beleagured, poverty-ridden central city surrounded by rich, white suburbs still does not accurately describe urban reality in most Southern and Western metropolitan areas. In these regions, most central cities still seem to be viable units, often because they have been able to use annexation or consolidation to capture a considerable amount of what would be otherwise suburban growth. These areas also have enough land area to contain an expansive housing market to accommodate the shelter demands of upper and middle income populations. In many cases, local governments in these areas have moved to county-wide or State provisions of public services that in Northeastern and Midwestern regions are still a function of subcounty local governments.

In contrast to the vitality of most central cities in the South and West, there are some suburban areas in these regions that are experi-

encing adverse growth problems. The suburban parts of metropolitan areas such as Tulsa, Knoxville, Memphis, Mobile and Nashville-Davidson are often of highly rural character. They are characterized by patterns of outmigration, housing conditions, and income distribution that resemble those of the central cities in the Northeast and Midwest. They have the additional problem of the lack of the necessary resources to provide high levels of public services. These "rural" suburban areas may be in even more need of various forms of assistance than a number of central cities.

Therefore, census data for standard metropolitan areas reveals that there are sets of socio-economic problems that are common to (1) most central cities, (2) certain regional groupings of central cities, (3) most suburban areas, and (4) certain regional groupings of outside central city areas. While all of the classifications face financial problems, the socio-economic disparities have particularly accentuated the financial problems of many central cities.

FOOTNOTES

[1]Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy*, IXIV, No. 5 (October 1956)

[2]Harvey Brazer, "Some Fiscal Implications of Metropolitanism," (Washington, D.C.: the Brookings Institute), Reprint No. 61

[3]Advisory Commission on Intergovernmental Relations. *Fiscal Balance in the American Federal System, Vol. II*

[4]Seymour Sacks, *City Schools/Suburban Schools: A History of Fiscal Conflict* (Syracuse: Syracuse University Press, 1972), pp. 42-43

[5]This data should be interpreted with some caution in light of the higher educational costs that are incurred in large cities (i.e. teacher salaries, land acquisition and building maintenance costs) and in light of the more extensive educational needs of large-city student bodies. On this last point see James Guthrie et. al., *Schools and Inequality* (Cambridge: MIT Press, 1971).

[6]On this point see the school district typology developed in the Urban Institute, Paying for Public Schools: Issues of School Finance in California (Washington, D.C.: The Urban Institute, 1972)

Appendix C

Exerpts From:
FINAL REPORT
Part I

STATE SUPERVISION OF LOCAL FINANCE

Sub-Committee on Fiscal Powers of Local Government
Governor's Special Commission on Local Government
State of Michigan

Lansing, Michigan *October, 1971*

TAX ANTICIPATION BORROWING

Under present law local units may borrow money with the approval of the Municipal Finance Commission in anticipation of the collection of ad valorem taxes for either the current year or the next fiscal year (MSA 5.3188 (13) et. seq.). Borrowing in anticipation of the current year ad valorem property tax collections provides local units with a useful tool in managing cash flow. Borrowing in anticipation of the tax levy of the following year, however, if used improperly can encourage deficit spending, allow rolling over and accumulating deficits from one year to the next, and can permit the evasion temporarily at least of constitutional, statutory and charter provisions limiting the rate of taxation.

The present statutory provision on borrowing in anticipation of the following year taxes provides that, "where the money so borrowed is for operating it shall be used only for the purpose of paying such necessary operating expenses of the municipality *as could not reasonably have been foreseen and adequately provided for* in the tax levy for the then current fiscal year" (MSA 5.3188 (14), emphasis added). The present limitation on borrowing for "such necessary operating expenses . . . as could not reasonably have been foreseen" does not always appear to be applied in practice. Some municipalities now include borrowing in anticipation of the following year taxes as a receipt in their budget in order to balance the budget; others borrow to cover poor revenue estimates and expenditures that were "overlooked" when the budget was adopted. Such borrowing is done for a variety of reasons that do not meet the test of expenditures "that could not reasonably have been foreseen."

The Attorney General in a recent opinion (Opinion No. 4673, 1971) on this provision as it relates to school districts stated:

> The statutory authority to borrow money in anticipation of either property tax or state school aid revenues to be received in the next fiscal year does not, either expressly or by necessary implication, encompass the authority to *adopt a budget* in which proposed expenditures are to be paid for by borrowing money in anticipation of either property tax or state school aid revenues to be received in the fiscal year following the fiscal year in which the borrowing occurs.
>
> . . .
>
> A school district borrowing for operating purposes in anticipation of the collection of taxes for the next succeeding fiscal year is expressly limited to operating expenses that were not reasonably foreseeable at the time of the tax levy for the current fiscal year.

While improved local budgeting practices, which are also recommended in this report, would obviate the necessity for much of the

present borrowing in anticipation of the following year's taxes, the restrictions on such borrowing should be tightened so that it is used only to meet bona fide emergency situation such as an unusual and serious condition endangering public health and welfare and requiring an immediate, unanticipated expenditure of funds or an unusual and serious deficiency in receipts threatening a default on obligations.

It is recommended that the Municipal Finance Commission, which is responsible for approving requests for borrowing in anticipation of the following year's taxes, apply stringently the statutory requirement that such borrowing be for expenses that "could not reasonably have been foreseen and adequately provided for."

It is recognized that in the case of those local units which have been utilizing such borrowing as a means of budgetary financing, implementation of this recommendation will have to be done in stages in order to permit amortization of existing deficits. The Municipal Finance Commission should require that any application for such borrowing be accompanied by a plan for eliminating the need for such borrowing.

PENSION ADMINISTRATION

One of the major fiscal problems confronting municipalities in Michigan today is the financing of pension benefits. The U.S. Census Bureau reports that in 1969-70 local governments in Michigan contributed $111 million to employee pension plans and that locally administered pension plans had total cash and security holdings of $934 million. At present there is little state supervision or regulation of local unit pension plans. It was brought to the attention of the subcommittee that one locally administered plan for police and fire employees in a city of 26,000 population had unfunded accrued liabilities of $28 million and no reserves. In that community no pension board had been appointed, pension funds including employee contributions had been "borrowed," and the city had not had an actuarial valuation of the plan for over 10 years.

The public interest as well as the interest of the public employer and employee in local pension plans are of such importance that the state should establish basic requirements for and supervise the administration of such plans.

It is recommended that state legislation be enacted regulating the administration of pension systems of local units of government and that the Department of Treasury be responsible for exercising such state supervision.

The state legislation should include at least the following:

1. That a local board of trustees be appointed and be legally responsible for administration of the plan.
2. That an actuarial valuation of the plan be made annually. Consideration should also be given to requiring an actuarial valuation of proposed changes in plans prior to their adoption so that the legislative body and public will be aware of the costs to which they are committing themselves. Since the Constitution makes the accrued financial benefits of a pension plan a contractual obligation, it is imperative that the full fiscal implication of any proposed change in benefits be thoroughly examined.
3. That local pension plans comply with the constitutional requirements that, "financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities."

TEMPORARY STATE CONTROL OF LOCAL FINANCES

The state recently has strengthened its role in supervising local government fiscal practices by providing for a uniform chart of accounts; for a uniform system of annual financial reporting; and for an annual audit of financial records.

These provisions serve to broaden the scope of state supervision of local fiscal practices and provide additional instruments for monitoring the health of the local financial and administrative systems. There is, however, need for attendant provisions for a timely and straightforward remedy when the monitoring instru-

ments indicate the financial affairs of a community are going sour.

It is recommended that specific statutory authority be provided for state intervention to forestall a breakdown in municipal financial administration when fiscal disorder revealed through the audit and reporting devices indicate a breakdown is possible.

Municipal home rule provisions grant cities a considerable degree of freedom to regulate their own affairs. Responsibility for effective local financial management has been traditionally viewed as a matter of local concern until a complete collapse can be said to threaten the credit of the state and its municipalities. The timely application of corrective action to avert a threatening fiscal collapse has depended in large measure upon local efforts and desire for improvements. Essentially, the state's ability to obtain timely corrective action has depended upon its capacity to build up cooperative relations with local officials.

When local responsibility has failed to function and fiscal collapse has occurred the only available remedy has been through the courts. The disadvantage of this alternative is that in waiting until the last moment of grave disorder, very drastic medicine is required for recovery. Further, under this alternative attention is focused more on the litigation involved in seeking settlement of outstanding claims and demands than on seeking remedy of the basic cause of failure in the municipal financial and administrative system.

The State of Maine provides in its statutes for a Board of Emergency Municipal Finance the purpose of which is stated to be: "to enable the municipalities that have fallen into financial difficulties to receive assistance from the state and to be reestablished on a sound financial basis. . . ." When a municipality becomes one year and six months in arrears in the payment of its taxes to the state in full or in part or defaults on any bond issue or payment of interest due thereon or refuses or neglects to pay school and other salaries due, the board is authorized to cause an audit to be made of the financial affairs of the community. The board is empowered to take over and regulate the administration of the community when an audit reveals in the judgment of the board that financial affairs are in such condition that the interest of the state and public necessity require that the community financial affairs be taken over. The board is composed of the State Commissioner of Finance and Administration, State Treasurer, and State Tax Assessor. The board can appoint commissioners to manage the affairs of local units. (30 M.R.S.A. 5301ff)

Massachusetts has created special boards of finance from time to time to have supervision over the financial affairs of given cities experiencing financial difficulties. The Fall River receivership is an example. The governor appointed three citizens one of whom was a resident of the city. The board was empowered to supervise the financial affairs of the city including the funding of floating debt, the incurrence of debt and expenditures, and to administer tax collection, fund custody and property tax assessment. State control ceased with the final retirement of defaulted obligations.

New Jersey empowers a Local Finance Board within the Division of Local Finance of the State Department of Community Affairs to exercise control over municipalities equivalent to a receivership. The New Jersey provisions are of particular interest in that they make state control conditional upon tests for the existence of one or more of five conditions in the municipality; (1) municipal default of debt principal or interest; (2) over-due payments of taxes to the state and other agencies; (3) a budget deficit for two years in execss of 5 percent of the tax levy; (4) excessive floating debt, measured as a percent of the budget; and, (5) excessive tax delinquency measured as a percent of taxes levied.

As a practical matter, when a community faces insolvency, a first act in the restoration of order to the city's financial affairs must be a resolution of factual and legal questions bearing on the city's ability to obtain and disburse funds to pay all creditors. This must come first so as to provide the community breathing space for the development of a rehabilitation plan. Some room for maneuver must be provided against immediate creditor demands which do not take cognizance of: 1) the existence of claims other than their own; 2) the need for the development of a system of priori-

ties for the payment of all claims; 3) the mandatory duty of the city to continue to perform its functions as a local government entity; 4) the duty to solve the financial problems so as to protect the credit of the city and the state; and 5) the controlling constitutional, statutory, charter, and budgetary provisions which limit the financial and legal ability of the city to levy taxes, to appropriate and to disburse funds.

Because of the separation of powers doctrine and municipal home rule provisions there is reluctance on the part of the court and state agencies to take over or specifically regulate changes in the financial and administrative system of a local unit in the absence of express statutory authority therefor.

The state, through the intervention of the attorney general and the courts, can serve to provide an opportunity for the municipality to develop a plan of rehabilitation free from creditor demands. However, the weight of present statutory authority for the development and implementation of a plan to restore fiscal stability devolves upon the same local municipal management that has indicated its inability to deal successfully with the city's problem.

Moreover, the courts are not an appropriate vehicle for monitoring municipal operations and for implementing necessary changes in local financial practices including budgeting, purchasing, accounting and reporting processes which have failed their purpose. On the other hand, state administrative agencies such as the Bureau of Local Government Services and the Municipal Finance Commission under the Department of Treasury do not have statutory authority to intervene when local administration breaks down. Thus, Michigan is not in a position to meet its inescapable duty to establish the legal foundation for local financial operations so as to secure the credit of the state and its municipalities. The state needs a statutory mechanism for temporary state control where outside guidance is desirable to restore healthy financial practices. There is ample precedent in other states.

The stated purpose of the New Jersey statute is "to make provision for the imposition of special restraints upon municipalities in, or in danger of falling into, unsound financial conditions and in this way to forestall serious defaults upon local obligations and demoralized finances that burden local taxpayers and destroy the efficiency of local services."

The Local Finance Board consists of the Director of the State Division of Local Finance as chairman, and three members appointed by the Governor by and with the advice and consent of the Senate. (A special and separate board of local citizens recently has been appointed to oversee the financial affairs of the city of Newark.)

When the director of the division of local finance finds in the course of his review and approval of a budget, the review of audit reprots or other special report filed by a local unit that any of the five conditions noted above exist in a municipality, he must give immediate notice to the local community that the question of applying the (state control statute) will be placed before the local finance board.

If the local finance board finds, after a public hearing, that the statutorily defined conditions do exist in the municipality, the board shall determine by resolution that the (state control statute) is in effect within the municipality. Under the statue the state board is empowered to use a variety of measures to correct the financial condition, depending upon the nature of the circumstances. The statue is to be "construed liberally to give effect to its intent that unsound financial conditions in municipalities shall be forestalled and corrected."

The board may, for example, promulgate rules and regulations with respect to various aspects of financial administration, such as budget preparation and execution, revenue, debt and assessment administration; and may appoint a local administrator to supervise the liquidation of debt, negotiate contracts with other local units for more economical provision of services, and when directed by the board perform the duties of the local city controller. (N.J. 52:27BB-54-98)

Temporary State Control in Michigan

Provisions for temporary state control serve largely to obtain remedy of abuses and maladministration which undermine the finances of a local unit rather than to obtain settlement of claims. Hence, the administrative control measures and the court's authority in the settlement of claims are complementary. While the

latter is properly a concern of the courts, particularly when agreement between the city and creditors cannot be reached voluntarily, it is unreasonable to expect the court to correct deficient practices in financial management. This can best be done through temporary state administrative control. Where specific statutory provision is not made therefor, the citizens and the courts lack a state agency to which to appeal for guidance and administrative remedy except as the court may require the Municipal Finance Commission or other agency to monitor affairs of a local unit.

For these reasons it is believed that consideration should be given to making available in Michigan a specific statutory mechanism for temporary state control where outside guidance is desirable to restore healthy financial practices.

It is believed that there would be significant advantage in achieving improved efficiency in administration by making the assumption of such state control conditional upon tests or standards that reveal or define disorder as is done in New Jersey. The standards would indicate the measure of performance required so as to avoid outside control.

In view of the fact that the State Department of Treasury is responsible for implementing existing statutory requirements regarding local audits, accounting systems, financial reporting and borrowing, consideration might be given to authorizing the Michigan Municipal Finance Commission within the Department of Treasury to apply statutorily defined measures of restraint upon municipalities in danger of falling into unsound financial condition. The Commission should have specific authority to assume the administration of local finance where, for example, there is default on debt or a failure to meet payrolls, or liquidate outstanding obligations.

It is recommended that the Michigan Municipal Finance Commission be empowered to impose special restraints upon local units of government that are: in danger of falling into unsound financial condition; unable to finance the ordinary needs of government; unable to meet outstanding or maturing obligations owing to inability to collect taxes or to borrow money through the issuance and sale of bonds sufficient to meet such governmental needs; or otherwise unable to maintain financial solvency.

Such special restraints should be imposed in a local unit when at the close of a fiscal year any of the following conditions exist:

(1) There is a default in the payment of principal and interest on bonded debt or other obligations as defined in the municipal finance act.
(2) Payments of taxes, contributions for social security, pensions or withholding taxes due the state and other jurisdictions remain unpaid.
(3) Salaries due employees are unpaid for two consecutive pay periods.
(4) An annual operating deficit for two consecutive years each of which exceeded five percent of total state authorized taxes collected in the year just closed.
(5) Floating debt in the form of accounts payable and other unpaid obligations in excess of ten percent of total appropriations for the year just ended and for which no funds are on hand for their financing.

When the state treasurer finds in the course of an examination of a local budget, a statement of current liabilities, an annual audit, or any other report filed with the local audit division of the Department of Treasury or the Municipal Finance Commission, that any of the conditions listed above exist in a local unit, he should place the question of the application of special restraints before the Municipal Finance Commission for its determination.

The commission should hold a hearing on the question to give the local governing body an opportunity to be heard. For this purpose, and the application of any restraints as may ensue, the Municipal Finance Commission membership should include not only the state treasurer, attorney general, and superintendent of public instruction, but also a private citizen of the state to be appointed by the governor by and with the advice and consent of the senate.

If the commission finds, after hearing, that the conditions above listed exist, it should then provide that special restraints are to be imposed within the local unit.

The special restraints that the commission should be authorized to impose are:

(1) make an analysis of all factors and circumstances contributing to the financial conditions of the local unit and recommend definite steps to be taken to correct such conditions.

(2) review and approve the budget of a local unit and limit the total amount of appropriations.

(3) require and approve a plan of liquidating current debt, to be adopted by resolution of the local governing body, with liquidation to continue for as many years as may be necessary to avoid annual amoritization costs exceeding twenty-five percent (25%) of total appropriations for operating purposes.

(4) require and prescribe the form of special reports to be made by a finance officer or governing body pertaining to the financial affairs of a local unit.

(5) have access to all records and books of account of the local unit and may require the attendance of witnesses and the production of books, papers, contracts and other documents relating to any matter within its scope.

(6) approve or disapprove any appropriation, contract, expenditure or loan, the creation of any new position, the elimination of any position other than an elective one, the filling of any vacancy in a permanent position by any appointing authority.

(7) approve any payroll, or other claim against the local unit prior to its payment.

(8) investigate and determine the possibilities of maintaining the services of the local unit at a lower cost through the use of contractural agreements with other local units and act as agent of the local unit in the negotiations of agreements with other jurisdictions when it finds services of the local unit can be provided at lower cost through such contractural agreements.

(9) act as agent of the local unit in collective bargaining with representatives of employees as provided for in Pulbic Act 379 of 1965.

(10) the commission may, in its discretion, appoint a local administrator of finance to exercise the powers of the commission and perform duties under the general supervision of the commission.

(11) employ experts, counsel, and other assistants, and incur such other expenses as it may deem necessary, at the expense of the state which expense shall be reimbursed by the local unit.

A local unit should remain subject to the special restraints of the commission as long as any of the conditions listed above exist, and until the local unit has operated during the last fiscal year without incurring a cash deficit as shall be computed in a manner prescribed by the Local Audit Division of the Department of Treasury.

It is recommended that the Governor be empowered to remove from office, upon recommendation of the Municipal Finance Commission, any officer of a local unit for misfeasance, malfeasance, or nonfeasance pursuant to the removal procedings set forth for the removal of county officers in Public Act 116 of 1954 as amended.

Appendix D

PRINCIPLES OF GOVERNMENTAL ACCOUNTING AND REPORTING

*The National Committee on
Governmental Accounting
1313 East 60th Street
Chicago, Illinois
(1968)*

Legal Compliance and Financial Operations

1. A governmental accounting system must make it possible: (a) to show that all applicable legal provisions have been complied with; and (b) to determine fairly and with full disclosure the financial position and results of financial operations of the constitutent funds and self-balancing account groups of the governmental unit.

Conflicts Between Accounting Principles and Legal Provisions

2. If there is a conflict between legal provisions and generally accepted accounting principles applicable to governmental units, legal provisions must take precedence. Insofar as possible, however, the governmental accounting system should make possible the full disclosure and fair presentation of financial position and operating results in accordance with generally accepted principles of accounting applicable to governmental units.

The Budget and Budgetary Accounting

3. An annual budget should be adopted by every governmental unit, whether required by law or not, and the accounting system should provide budgetary control over general governmental revenues and expenditures.

Fund Accounting

4. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Type of Funds

5. The following types of funds are recognized and should be used in accounting for governmental financial operations as indicated.

(1) The General Fund to account for all financial transactions not properly accounted for in another fund;

(2) Special Revenue Funds to account for the proceeds of specific revenue sources (other than special assessments) or to finance specified activities as required by law or administrative regulation;

(3) Debt Service Funds to account for the payment of interest and principal on long-term debt other than special assessment and revenue bonds,

(4) Capital Projects Funds to account for the receipt and disbursement of moneys used for the acquisition of capital facilities other than those financed by special assessment and enterprise funds;
(5) Enterprise Funds to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges by users of such services;
(6) Trust and Agency Funds to account for assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units.
(7) Intragrovernmental Service Funds to account for the financing of special activities and services performed by a designated organization unit within a governmental jurisdiction for other organization units within the same governmental jurisdiction.
(8) Special Assessment Funds to account for special assessments levied to finance public improvements or services deemed to benefit the properties against which the assessments are levied.

Number of Funds

6. Every governmental unit should establish and maintain those funds required by law and sound financial administration. Since numerous funds make for inflexibility, undue complexity, and unnecessary expense in both the accounting system and the over-all financial administration, however, only the minimum number of funds consistent with legal and operating requirements should be established.

Fund Accounts

7. A complete self-balancing group of accounts should be established and maintained for each fund. This group should include all general ledger accounts and subsidiary records necessary to reflect compliance with legal provisions and to set forth the financial position and the results of financial operations of the fund. A clear distinction should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of Intragovernmental Service Funds, Enterprise Funds, and certain Trust Funds, fixed assets should not be accounted for in the same fund with the current assets, but should be set up in a separate, self-balancing group of accounts called the General Fixed Asset Group of Accounts. Similarly, except in Special Assessment, Enterprise, and certain Trust Funds, long-term liabilities should not be carried with the current liabilities of any fund, but should be set up in a separate, self-balancing group of accounts known as the General Long-term Debt Group of Accounts.

Valuation of Fixed Assets

8. The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the case of gifts, the appraised value at the time received.

Depreciation

9. Depreciation on general fixed assets should not be recorded in the general accounting records. Depreciation charges on such assets may be computed for unit cost pruposes, provided such charges are recorded only in memorandum form and do not appear in the fund accounts.

Basis of Accounting

10. The accrual basis of accounting is recommended for Enterprise, Trust, Capital Projects, Special Assessment, and Intragovernmental Service Funds. For the General, Special Revenue, and Debt Service Funds, the modified accrual basis of accounting is defined as that method of accounting in which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when received in cash, except for material or available revenues which should be accrued to reflect properly the taxes levied and the revenues earned.

Classification of Accounts

11. Governmental revenues should be classified by fund and source. Expenditures should be classified by fund, function, organization unit, activity, character, and principal classes

of objects in accordance with standard recognized classification.

Common Terminology and Classification

12. A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.

Financial Reporting

13. Financial statements and reports showing the current condition of budgetary and proprietary accounts should be prepared periodically to control financial operations. At the close of each fiscal year, a comprehensive annual financial report covering all funds and financial operations of the governmental unit should be prepared and published.

Appendix E

STATE SUPERVISION OF MUNICIPAL FINANCIAL MANAGEMENT

Initial attempts to draw up a summary of the role of States in supervising the financial management of cities indicated that there was no general information readily available for each State. It was necessary, therefore, to survey every State to obtain information.

The survey was conducted in two states. First, officials of the organization of municipalities in each State were telephoned and asked exactly what the States required from municipalities; an outline of the questions which were asked in these telephone interviews is attached. The telephone survey was designed to discover exactly what State officials are requiring, rather than what the statutory requirements are, or what the State officials think they should be doing.

A State summary based on the telephone interviews, was prepared and sent to the official in each State who is chiefly responsible for the supervision of municipal finance. The official was asked to review the description for accuracy and completeness. After numerous follow-up letters, and telephone calls to clarify points, the summary of practices in each State, as published below, has been approved by the responsible State officials, except for three States: the summary for Idaho has not been approved, and Alaska and Hawaii have not answered our initial letters requesting a description of their activities (municipal organizations in these two States were not contacted by telephone). The information used is the most complete and the most accurate available as of the late spring of 1972; however, the user should be aware that the situation in many States is changing rapidly and that in some States, particularly those with responsibilities for supervision divided among several agencies, a part of the State functions may have inadvertently been omitted.

PINTS CONSIDERED IN REVIEWING STATE SUPERVISION OF MUNICIPAL FINANCIAL PRACTICES

1. What is the name of the State agency (or agencies) with active involvement in assisting or supervising municipal financial management?
2. What are the supervisory responsibilities of the agency over municipal budgets:
   a. Receives copies of proposed and/or enacted budgets?
   b. Compiles and/or publishes such budgets?
   c. Reviews local budgets?
   d. Has authority to suggest or require substantive changes in local budgets?
3. What are the supervisory responsibilities of the State agency concerned with financial reports:
   a. Receive copies?
   b. Compiles and/or publishes such reports?

c. Any other action, such as reconciliation of figures shown in proposed budgets and financial reports? (Exclude review of reports for evidence of suspected criminal action.)
d. Action taken by agency if deficit financing is indicated?
4. Is there State supervision over short-term municipal operating borrowing (less than a year), if such borrowing is permitted? (Include tax or bond anticipation notes.)
5. Is a uniform system of accounting suggested or required for municipal governments? Is use of standard State forms, or State approved equals required for submission of budgets and financial reports?

SUMMARY OF STATE SUPERVISORY ACTIVITIES

Alabama

There is no State agency responsible for supervision over municipal financial management. There are no requirements for filing budgets or financial reports with the State, nor are there requirements for controls over short-term municipal operating debt.

Arizona

Proposed municipal budgets are filed on uniform forms with the Arizona State Tax Commission and there checked to see that the statutory limitation on expenditure increase (10% each year) is not exceeded. Special permission to exceed the limitation on increases in expenditures must be granted by the State Tax Commission.

Audit reports are required every two years, and a copy is put in the archives.

There is no requirement for controls over short-term municipal operating debt.

Arkansas

Assistance to cities is provided by the Department of Community Development in the State Planning Commission.

Municipal audits are made by staff of the State Division of Local Audits, filed with the Legislative Joint Auditing Committee in the Legislative Branch, and reviewed there by the Legislative Joint Auditing Committee in open monthly meetings. State staff audit most municipalities.

Short-term municipal operating debt is prohibited by the Constitution.

There are no requirements for filing or review of municipal budgets.

California

Cities file financial data with State Controller. Data are published in the *Annual Report of Financial Transactions Concerning Cities*.

There are no requirements for filing or review of budgets or for controls over short-term municipal operating debt.

Colorado

The Division of Local Government in the Department of Local Affairs supervises financial management in the cities.

All proposed budgets are filed with and reviewed by the Division of Local Government with special justification required for increases over 5% of ad valorem property tax revenue. The Division of Local Government may require changes in budgets (except for home-rule cities).

The Division prepares and publishes an annual compendium of local government finances.

Financial reports and audits are required to be submitted and reviewed by the State Auditor (includes home-rule cities). Cities are required to use a uniform chart of accounts.

Short-term municipal operating debt may be incurred if it does not extend past the current fiscal year. There are no requirements for notification or review of short-term municipal operating debt issues.

Connecticut

The Department of Community Affairs provides assistance to cities. Cities file annual audit reports with the State Tax Commission which reviews them for accounting accuracy.

There are no requirements for filing or review of budgets or for controls over short-term municipal operating debt.

Delaware

There is no State agency responsible for supervision over municipal financial management. There are no requirements for filing budgets or financial reports with the State, nor are

there requirements for controls over short-term municipal operating debt.

Florida

Several State agencies share responsibility for supervision over municipal financial management: the Department of Administration (Bureau of Planning), the Office of the Auditor General, and the Office of the Comptroller. A Local Government Commission is currently studying the organization of financing and reporting requirements.

The Department of Administration (Bureau of Planning) receives annual financial reports (on uniform forms) for all incorporated cities. Compilations were made for the first time for fiscal 1971. The Office of Comptroller also receives annual financial reports.

The Auditor General post-audits municipal accounts on direction of the Legislative Auditing Committee or the Governor. All municipalities must have annual post audits by independent CPA's except when auditted by the Auditor General

There are no controls over short-term mucipal operating debt.

Georgia

There is no State agency responsible for supervision over municipal financial management. There are no requirements for filing budgets or financial reports with the State, nor are there requirements for controls over short-term municipal operating debt.

Idaho

The State Auditor receives copies of the annual audits. Beginning in 1973, cities must file a detailed balance sheet report on uniform forms.

Apparently there are no requirements for filing or review of budgets, or for controls over short-term municipal operating debt.

Illinois

The Department of Local Government Affairs assists cities in preparation of budgets upon request and also renders assistance in fiscal management when requested.

The State Auditor's Office receives and reviews certified audits on uniform reporting forms. A statewide summary of audits is published every two years.

There are no administrative controls over short-term municipal operating debt.

Indiana

Proposed budgets are required to be submitted to the State Board of Tax Commissioners which does a detailed review and may require substantive changes.

Uniform accounts are prescribed and supervised by State Board of Accounts, which also furnishes temporary supervisory assistance in connection with financial and accounting problems of city officials. An Accounting Manual and Budget Booklet is furnished to cities by State Board of Accounts.

All city records are audited by the State Board of Accounts in accordance with Indiana Public Accounting Law.

Cities are required to file annual financial reports (on a calendar year basis) for review by the Statistical Division of the State Board of Accounts in conjunction with audit reports of field examiners. Changes may be required.

There are no State controls over short-term municipal operating debt, except a statutory requirement that the interest rate may not exceed 5 percent. If the interest is greater than 5 percent, approval must be secured from the State Board of Tax Commissioners.

Iowa

Proposed budgets are filed first with County Auditors, who then file them with the State Budget Director. Budgets are reviewed for statutory compliance by the State Budget Director with the assistance of the State Budget Review Committee.

The new Iowa Home Rule Act (to take effect in 1974) sets up a representative nine-member City Finance Committee to formulate budget and accounting standards. Major emphasis is on uniform information on a statewide basis.

Mandatory annual audits on uniform forms (by the State Auditor or a C.P.A.) are required to be filed with Auditor of State for cities with populations of 2,000 and over. Audits are mandatory every four years for town (700-2,000 population). The Auditor of State may audit municipal accounts on his own initiative.

The only short-term municipal operating

debt is in the form of stamp warrants, which by statute may not exceed the total amount of the budget and must be repaid by the end of the fiscal year.

Kansas

Budgets (on State-prescribed uniform forms) are filed with the office of the Auditor of State.

Financial audit reports (by independent CPA's) are filed, and reviewed by the Auditor of State.

Short-term municipal operating debt must be approved by the State Board of Tax Appeals.

Kentucky

The State Local Finance Office provides technical assistance to cities on voluntary basis.

Financial reports are required to be filed with the State Auditor.

Use of the Uniform System of Accounts and standard budget forms is recommended.

There are no requirements for controls over short-term municipal operating debt.

Louisiana

The State Legislative Auditor receives and files copies of city audits (done by independent CPA's). A 1972 statute requires audits to be made in conformity with the Uniform Audit and Accounting Guide.

There are no requirements for filing or review of city budgets.

The State Bond and Tax Board reviews short-term and long-term borrowing for legal compliance and ability to repay.

Maine

Each municipality must be audited annually (following State audit procedures) by the State Auditor or by registered public accountants and a copy of the audit report filed with the State Auditor.

There are no requirements for filing or review of budgets.

By statute, short-term loans must not exceed total tax levy of the preceding year, and must be paid back within the fiscal year in which they were borrowed.

Maryland

The Department of Fiscal Services receives annual fiscal reports on uniform forms. The reports are verified against other information and used as a basis for publishing an annual report entitled "Local Government Finances in Maryland". The Department also receives copies of annual audit reports which are reviewed by the Legislative Auditor for proper auditing practices.

There are no requirements for filing budgets.

There is no control over short-term municipal operating debt.

Massachusetts

The Department of Community Affairs provides management assistance to cities. The Bureau of Accounts (in Department of Corporations and Taxation) provides assistance in municipal financial management.

City tax rates must be approved by the Commissioner of Corporations and Taxation on the basis of financial data submitted by cities.

The Bureau of Accounts (in the Department of Corporations and Taxation) audits city accounts. The Director of Accounts has authority to prescribe uniform schedules for financial statements.

A standard accounting system (installed by Bureau of Accounts upon petition) is in effect in all 39 cities.

There are no controls over short-term municipal operating debt except for notes in anticipation of Federal grants for public works, which must be approved by the State Emergency Finance Board.

Michigan

There is no general requirement for filing budgets, but the Department of Treasury may under certain circumstances require submission of budgets for review. (For example, such review may be required if a city requests permission for short-term borrowing to finance a general fund operating deficit.)

The Local Audit Division, Department of Treasury, receives and reviews audited financial reports on uniform basis. Informal assistance in financial management is given to cities with deficits.

All municipal operating debt must be approved by the Municipal Finance Commission.

Minnesota

The Public Examiner's Office receives finan-

cial statements from all cities (use of uniform forms is suggested). Mandatory audits are made of the 3 first-class cities.

There are no requirements for filing or review of budgets. The Department of Taxation administers statutory limitations on expenditures, especially those expenditures for bonded indebtedness, to determine homestead credit.

There are no requirements for administrative controls over short-term municipal operating debt.

Mississippi

The State Auditor receives copies of budgets and simple financial reports on uniform forms for municipalities of less than 1,000 population. A uniform system of accounting and reporting is prescribed by State Auditor, but there are no penalty provisions.

Municipalities having population of 1,000 or more are subject to audit by private accountant with standards prescribed by the State Auditor.

There are no State controls over short-term municipal operating debt.

Missouri

The State Auditor receives budgets and annual financial reports. (Cities may not spend money until the budget is filed.)

There are no requirements for review of budgets or financial reports, or for control over short-term municipal operating debt.

Montana

The Municipal Division of the Department of Business Regulation receives copies of proposed and enacted budgets (submitted on uniform State-prescribed forms).

Annual financial reports (on State-prescribed uniform forms) are audited by the Municipal Division.

Short-term municipal operating borrowing is done by registered warrants over which there are statutory controls.

Nebraska

The State Auditor receives city budgets on uniform forms and checks them to see that the mill limit is not exceeded.

Annual audits for cities or villages over 400 population are filed with the State Auditor.

There are no controls over short-term municipal operating debt.

Nevada

The State Tax Commission receives preliminary and final budgets which are checked to see that laws and regulations are met and that the ad valorem tax limitation for all taxing units is not exceeded. If the limit is exceeded and local units cannot agree on necessary adjustment, the Commission may make arbitrary cuts.

Cities file financial reports with the State Tax Commission. Annual audits of cities conducted by independent PA or CPA firms are filed, and reviewed by the State Tax Commission.

The Local Government Budget Advisory Committee sets up rules and procedures, and uniform forms.

Short-term municipal operating debt must be approved by the State Board of Finance and State Tax Commission.

New Hampshire

The Tax Commission requires filing of enacted budgets. The Commission has authority to remove illegal appropriations, adjust revenue estimates and must approve tax rates.

Financial reports on uniform forms are filed with Tax Commission. The Municipal Accounting Division may initiate audits.

There are no requirements for controls over short-term municipal operating debt.

New Jersey

Budget (on cash basis and on uniform forms) are submitted to the Department of Community Affairs (Division of Local Finance). The Division has the authority to require substantive changes; it must approve budgets before they become effective.

The Division of Local Finance receives and reviews audit reports on uniform forms.

There are no requirements for routine approval of short-term municipal operating debt.

New Mexico

The Local Governments Division of the Department of Finance and Administration receives city budgets, holds hearings, and may make substantive changes.

Annual audits are conducted by independent auditors under rules and regulations of the State Auditor. The State Auditor reviews the annual audits.

Short-term municipal operating debt is not permitted by State statute.

New York

Annual budgets and financial reports are filed with the Division of Municipal Affairs in the Office of the State Comptroller. Budgets are reviewed for substance and legality. Financial reports are desk audited and compiled annually in comparative form. Budget and actual reported expenditures are compared during periodic continuous field examinations.

Deficit financing is not recognized in the operation of units of Local Governments in New York State and can only be legally validated by legislative enactment.

Short-term municipal operating debt is permitted in anticipation of actual taxes to be collected and certain revenues to be received, and for budget notes under some conditions.

Budgeting, accounting and reporting are uniformly regulated and controlled through promulgation by the Division of Municipal Affairs of uniform systems of accounts for all major types of local government in New York State.

North Carolina

Annual audit reports are required to be submitted to the Local Government Commission where they are reviewed and kept on file. Although uniform forms are not required, the Commission has developed a complete municipal financial manual with suggested format.

There are no requirements for filing or review of budgets.

Short-term municipal operating debt must be approved by the Local Government Commission.

North Dakota

The State Tax Commissioner prescribes uniform forms for city budgets. There is no requirement for filing or review of city budgets by a State agency. (The County Auditor reviews city budgets.)

Biennial audits on uniform forms are required (by State Auditor or CPA) with reports filed in Office of State Auditor, Governor's Office, and State Bonding Fund. Audits are reviewed by the State Auditor who may require correction of deficiencies.

There are no administrative controls over short-term municipal operating debt.

Ohio

Annual financial reports are filed with the State Auditor who compiles and publishes them.

There are no requirements for filing or review of budgets, or for controls over short-term municipal operating debt.

Oklahoma

Cities file budgets on uniform forms with State Board of Equalization. Financial reports are filed with State Board of Equalization.

There are no controls over short-term municipal operating debt.

Oregon

The Department of Revenue (Local Budget Section) receives local budgets and reviews them for procedural compliance.

Cities are required to file audits or financial reports specified in lieu of audit with the Auditor of Public Accounts, who reviews them for accuracy and to see they contain information required by Minimum Standards of Audit Reports (jointly prescribed by the Secretary of State and the Oregon State Board of Accountancy).

There are no requirements for administrative control over short-term municipal operating debt.

Pennsylvania

The Department of Community Affairs receives enacted budgets (prepared on recommended uniform forms) for all cities except Philadelphia, Pittsburgh, and Scranton.

The Department of Community Affairs receives annual financial reports (prepared on recommended uniform forms) for all cities except Philadelphia, Pittsburgh, and Scranton. Compilations are published.

There are no administrative controls over short-term municipal operating debt.

Rhode Island

The Department of Community Affairs, Tax

Equalization Section, gives general assistance. The Department of Administration supervises annual financial audit requirements.

There is no requirement that municipalities file budgets.

All municipalities must file annual audits (by CPA's) with the State Bureau of Audits, or be post-audited by them. The Tax Equalization Section compiles a mandatory annual report on "Local Government Finances and Tax Equalization."

There is no requirement for uniform accounts, but the State Department of Administration will, if petitioned, assist municipalities with their accounting systems.

There are no administrative controls over short-term municipal operating debt.

South Carolina

There is no State agency responsible for supervision over municipal financial management. There are no requirements for filing budgets or financial reports with the State, nor are there requirements for controls over short-term municipal operating debt.

South Dakota

The State Department of Audits and Accounts receives and audits financial reports of municipalities. (Financial reports must be published.) Municipal budgets are not submitted routinely for review, but the budgeting process is included in the audit routine and the Auditor General has the authority to require both form and procedure of all municipal budgets.

The State Department of Audits and Accounts requires use of its uniform accounting manual, and use of a uniform form for semi-annual report.

State law does not permit municipalities to borrow on notes, but a registration of warrants is the procedure that is followed should the municipality temporarily run out of money in any fund.

Tennessee

The Comptroller's Office (Division of Local Finance) assists municipalities in fiscal management. The Office of Local Government (also in the Comptroller's Office) furnishes assistance in other areas.

Municipalities with funding or refunding bonds must file and receive approval of budgets by the State Director of Local Finance as long as bonds remain outstanding.

The Comptroller, through the Department of Audit, requires audits to be made, under standards set by the Department, and approved.

The Division of Local Finance prescribes a uniform system of accounts for all local governments.

There are no requirements for administrative control over short-term operating debt.

Texas

Enacted budgets are filed with Comptroller.

There are no requirements for filing or review of financial reports, or for use of uniform forms, nor are there requirements for control over short-term municipal operating debt.

Utah

Enacted budgets must be filed with the State Auditor who publishes some analyses.

Cities are required to have independent audits which are filed with State Auditor's Office.

There are no administrative controls over short-term municipal operating debt.

Vermont

Annual reports of towns and municipalities are printed and sent to the State Auditor.

The State Auditor or independent accounting firms are responsible for assisting cities in setting up uniform systems of accounts if they request it.

There are no requirements for filing or review of budgets, or controls over short-term municipal operating debt.

Virginia

The State Department of Taxation advises local governments on assessment and collection of taxes.

Copies of annual reports of cities are required to be filed with the Auditor of Public Accounts who compiles a comparative cost report for all cities. Cities may have audits done by the Auditor of Public Accounts.

There are no requirements for filing or review of budgets, nor are there controls over short-term municipal operating debt.

Washington

The Division of Municipal Corporations (Office of the State Auditor) receives copies of annual budgets (on prescribed forms).

The Division post-audits annual financial reports (on uniform forms) of all cities and compares such reports with previously filed budgets to determine that expenditures did not exceed authorized appropriations.

There are no requirements for controls over short-term municipal operating debt.

West Virginia

The West Virginia State Tax Department (Local Government Relations Division) pre-audits, audits, and reviews all municipal budgets. Division-prescribed forms are used. The State Tax Commission may require changes in local budgets; a maximum three percent casual deficit is allowed, but must be budgeted the following year.

Each city is required to prepare and publish a financial report within four weeks of the close of the fiscal year. The West Virginia State Tax Department makes field audits of cash flow figures annually.

The Tax Commissioner is required by State law to prescribe a uniform system of accounts.

There are no requirements for administrative controls over short-term municipal operating debt.

Wisconsin

Financial reports (on uniform forms) are filed with Bureau of Municipal Audit which compiles and publishes them.

There are no requirements for filing or review of budgets, or for controls over short-term municipal operating debt.

Wyoming

Cities of the first class file budgets with the State Examiner's Office.

The State Examiner does field audits of city financial reports.

There are no administrative requirements for controls over short-term municipal operating debt.

Appendix F

FEDERAL MUNICIPAL BANKRUPTCY ACT

Chapter IX

Composition of Indebtedness of Certain Taxing Agencies or Instrumentalities

SECTION EIGHTY-ONE (11 U.S.C. § 401)

§ 81. This Act and proceedings thereunder are found and decleared to be within the subject of bankruptcies and, in addition to the jurisdiction otherwise exercised, courts of bankruptcy shall exercise original jurisdiction as provided in this chapter for the composition of indebtedness of, or authorized by, any of the agencies or instrumentalities hereinafter named, payable (a) out of assessments or taxes, or both, levied against and constituting liens upon property in any of said agencies or instrumentalities, or (b) out of property acquired by foreclosure of any such assessments or taxes or both, or (c) out of income derived by such agencies or instrumentalities from any income producing property, whether or not secured by a lien upon such porperty: (1) Drainage, drainage and levee, reclamation, water, irrigation, or other similar districts, commonly designated as agricultural improvement districts or local improvement districts, organized or created for the purpose of constructing, improving, maintaining, and operating certain improvements or projects devoted chiefly to the improvement of lands therein for agricultural purposes; or (2) local improvement districts, such as sewer, paving, sanitary, or other similar districts, organized or created for the purposes designated by their respective names: or (3) local improvements districts, such as road, highway, or other similar districts, organized or created for the purpose of grading, paving, or otherwise improving public streets, roads, or highways; or (4) public-school districts or public-school authorities organized or created for the purpose of constructing, maintaining, and operating public schools or public-school facilities; or (5) local improvement districts such as port, navigation. or other similar districts, organized or created for the purpose of constructing, improving, maintaining, and operating ports and port facilities; or (6) incorporated authorities, commissions, or similar public agencies organized for the purpose of constructing, maintaining, and operating revenue-producing enterprises; or (7) any county or parish or any city, town, village, borough, township, or other municipality: *Provided, however,* That if any provision of this chapter, or the application thereof to any such agency or district or class thereof or to any circumstance, is held invalid, the remainder of the chapter, or the application of such provision to any other or different circumstances, shall not be affected by such holding.

Comment

1946 Amendment.—Section 81 was amended by 60 Stat. 409 (1946). The word "taxing" as a limitation on the agencies and instrumentalities affected by the section was deleted where

appropriate. Sub-sections (c) and (d), which formerly read, "(c) out of income derived by such taxing agencies or instrumentalities from the sale of water or power or both, or (d) from any combination thereof," were altered. Sub-section (d) was deleted, and (c) changed to its present form. What is now clause (6) was added. The purpose of the amendments has been stated in Senate Report No. 1633, 79th Cong., 2d Sess. (1946) 2-3, as follows:

"The existing act does not adequately cover what is known as revenue bonds. These are bonds issued by a public agency which are not payable out of taxes but are payable solely from the revenues received from the operation of a revenue—producing public utility or property. When the existing act was enacted, revenue bonds were not an important factor in municipal financing. Since that time, however, there has been a great development in revenue bond financing and such bonds are now issued by municipalities and other public agencies for many other purposes, such as housing, bridges, tunnels, airports, and similar enterprises. Moreover, the development of this type of financing has brought into existence a new type of municipality known as an authority. In some instances they are called commissions or districts, but essentially they are all of the same character that is, a public agency authorized to construct or acquire a revenue-producing utility and to issue bonds for such purpose payable solely out of the revenues derived from the utility. They possess no power of taxation and were designed as a means of financing public improvements without resorting to the taxing power. The existing law does not apply to this type of municipality.

"H.R. 6682 amends the existing statute so as to make it applicable to any type of revenue bond issued by a city, town, county, and so forth, and also to make the act applicable to 'authorities.' The extension of the act along these lines is singularly appropriate because the revenue bonds issued by municipalities or authorities are for the purpose of financing revenue-producing enterprises rather than governmental functions. They are essentially business enterprises. The investor purchases these bonds relying upon the ability of the municipality to operate such business enterprises at a profit. Obviously these businesses are subject to the same hazards as other businesses financed by private capital. That fact is realized by the investor when he purchases such bonds and he does not depend upon the taxing power of the municipality to meet the principal and interest. Such bonds today enjoy a very wide market.

"Under the existing law the holders of revenue bonds are in the same position as were the holders of general obligation bonds of a municipality prior to the enactment of the Municipal Act. A small minority would be in a position to veto a settlement to which the overwhelming majority of the holders of such bonds had agreed.

"Defaults in municipal bonds of any character are not serious at the present time. However, it does not seem wise to wait for the problem to become urgent before consideration is given to its solution. The committee recognizes the fact that there has been a new development in municipal finance. The revenue bond principle and the authority are new tools of local government which are becoming increasingly popular because they meet the problems of modern government financing. More and more municipal activities will be financed by bonds of this type and defaults will occur to a greater or lesser degree in the coming years. The holders of these revenue bonds are entitled to the same protection under the Municipal Bankruptcy Act as is now afforded to the holders of general municipal bonds. There appears to be no good reason for making a distinction between revenue bonds and general bonds. H.R. 6682 extends the benefits of the act to the holders of all revenue bonds issued by cities, counties, towns, villages, and so forth, and by authorities or similar public instrumentalities of the States."

SECTION EIGHTY-TWO (11 U.S.C. § 402)

§ 82. The following terms as used in this chapter, unless a differnt meaning is plainly required by the context, shall be construed as follows:

The term "petitioner" shall include any agen-

cy or instrumentality referred to in section 81 of this chapter.

The term "security" shall include bonds, notes, judgments, claims, and demands, liquidated or unliquidated, and other evidences of indebtedness, either secured or unsecured, and certificates of beneficial interest in property.

The term "creditor" means the holder of a security or securities.

Any agency of the United States holding securities acquired pursuant to contact with any petitioner under this chapter shall be deemed a creditor in the amount of the full face value thereof.

The term "security affected by the plan" means a security as to which the rights of its holder are proposed to be adjusted or modified materially by the consummation of a composition agreement.

The singular number includes the plural and the masculine gender the feminine.

Comment

1946 Amendment.—Section 82 was amended by Stat. 409 (1946). The changes aside from the elimination of the word "taxing", were merely stylistic. The word "taxing" was deleted in conformity with the amendments of § 81, *supra*.

SECTION EIGHTY-THREE (11 U.S.C. § 403)

§ 83. (a) Any petitioner may file a petition hereunder stating that the petitioner is insolvent or unable to meet its debts as they mature and that it desires to effect a plan for the composition of its debts. The petition shall be filed with the court in whose territorial jurisdiction the petitioner or the major part thereof is located, and, in the case of any unincorporated tax or special-assessment district having no officials of its own, the petition may be filed by its governing authority or the board or body having authority to levy taxes or assessments to meet the obligations to be affected by the plan of composition. The petition shall be accompanied by payment to the clerk of a filing fee of $100, which shall be in lieu of the fees required to be collected by the clefk under other applicable chapters of this title, as amended. The petition shall state that a plan of composition has been prepared, is filed and submitted with the petition, and that creditors of the petitioner owning not less than 51 per centum in amount of the securities affected by the plan (excluding, however, any such securities owned, held, or controlled by the petitioner) have accepted it in writing. There shall be filed with the petition a list of all known creditors of the petitioner, together with their addresses so far as known to petitioner, and description of their respective securities showing separately those who have accepted the plan of composition, together with their separate addresses, the contents of which list shall not constitute admissions by the petitioner in a proceeding under this chapter or otherwise. Upon the filing of such a petition the judge shall enter an order either approving it as properly filed under this chapter, if satisfied that such petition complies with this chapter and has been filed in good faith, or dismissing it, if not so satisfied.

Whenever the petitioner seeks to effect a plan for the composition of obligations represented by securities, or evidences in any form of rights to payment, issued by the petitioner to defray the cost of local improvements and which are payable solely out of the proceeds of special assessments or special taxes levied by the petitioner, or issued by the petitioner to finance one or more revenue-producing enterprises payable solely out of the revenues of such enterprise or enterprises, it shall be sufficient if the petitioner aver that the property liable for, or the revenues pledged to the payment of such securities, principal, and interest is not of sufficient value, or that the revenues of the enterprise or enterprises are inadequate to pay same, and that the accrued interest on such securities is past due and in default; and the list of creditors to be filed with such petition need contain only the known claimants of rights based on those securities evidencing the obligations sought to be composed under this chapter, and such list shall include separately the names and addresses of those creditors who have accepted the plan of composition. If the plan of composition sought to be effected requires a revision of assessments so that the proportion of special assessments or special taxes to be assessed against some of the lands will be different from the proportion in effect at the time the petition is filed, a list of the re-

cord owners or holders of title, legal or equitable, to any real estate adversely affected in the proceeding shall also be filed with the petition, and such record owners or holders of title shall be notified in the manner provided in this section for creditors and be entitled to hearing by the court upon reasonable application therefor.

The "plan of composition," within the meaning of this chapter, may include provisions modifying or altering the rights of creditors generally, or of any class of them, secured or unsecured, either through issuance of new securities of any character, or otherwise, and may contain such other provisions and agreements not inconsistent with this chapter as the parties may desire.

No creditor shall be deemed to be affected by any plan of composition unless the same shall affect his interest materially, and in case any controversy shall arise as to whether any creditor or class of creditors shall or shall not be affected, the issue shall be determined by the judge, after hearing, upon notice to the parties interested.

For all purposes of this chapter any creditor may act in person or by an attorney or a duly authorized agent or committee. Where any committee, organization, group, or individual shall assume to act for or on behalf of creditors, such committee, organization, group, or individual shall first file with the court in which the proceeding is pending a list of the creditors represented by such committee, organization, group, or individual, giving the name and address of each such creditor, together with a statement of the amount, class, and character of the security held by him, and attach thereto copies of the instrument or instruments in writing signed by the owners of the bonds showing their authority, and shall file with the list a copy of the contract or agreement entered into between such committee, organization, group, or individual and the creditors represented by it or them, which contract shall disclose all compensation to be received, directly or indirectly, by such committee, organization, group, or individual, which agreed compensation shall be subject to modification and approval by the court.

Comment

1946 Amendment.—Section 83(a) was amended by 60 Stat. 410 (1946).

Section 83(a) was amended by 60 Stat. 410 (1946).

The additions to the second sentence of the second paragraph of § 83(a) (the language from "If the plan of composition . . ." to ". . . the petition is filed, a . . ." was added and "adversely affected" was substituted for "involved") represent a procedural improvement urged in the interest of expediting proceedings. House Report No. 2246, 79th Cong., 2d Sess. (1946) 3, stated: "A provision designed to clarify the procedure to be followed in filing a list of the record owners and holders of title to lands affected by a plan of composition has been added in section 83(a) . . . The purpose is to require such list only in cases where the plan of composition requires a revision of the assessment against the record owners or holders of title who are adversely affected by the plan. It is felt that notice to others not so affected is unnecessary."

(b) Upon approving the petition as properly filed, or at any time thereafter, the judge shall enter an order fixing a time and place for a hearing on the petition, which shall be held within ninety days from the date of said order, and shall provide in the order that notice shall be given to creditors of the filing of the petition and its approval as being properly filed, and of the time and place for the hearing. The judge shall prescribe the form of the notice, which shall specify the manner in which claims and interests of creditors shall be filed or evidenced, or on or before the date fixed for the hearing. The notice shall be published at least once a week for three successive weeks in at least one newspaper of general circulation published within the jurisdiction of the court, and in such other paper or papers having a general circulation among bond dealers and bondholders as may be designated by the court, and the judge may require that it may be published in such other publication as he may deem proper. The judge shall require that a copy of the notice be mailed, postage prepaid, to each creditor of the petitioner named in the petition at the address of such creditor given in the petition, or, if no address is given in the petition for any

creditor and the address of such creditor cannot with reasonable diligence be ascertained, then a copy of the notice shall be mailed, postage prepaid, to such creditor addressed to him as the judge may prescribe. All expense of givnig notice as herein provided shall be paid by the petitioner. The notice shall be first published, and the mailing of copies thereof shall be completed, at least sixty days before the date fixed for the hearing.

At any time not less than ten days prior to the time fixed for the hearing, any creditor of the petitioner affected by the plan may file an answer to the petition controverting any of the material allegations therein and setting up any objection he may have to the plan of composition. The judge may continue the hearing from time to time if the percentage of creditors required herein for the confirmation of the plan shall not have accepted the plan in writing, or if for any reason satisfactory to the judge the hearing is not completed on the date fixed therefor. At the hearing, or a continuance thereof, the judge shall decide the issues presented and unless the material allegations of the petition are sustained shall dismiss the proceedings. If, however, the material allegations of the petition are sustained, the judge shall classify the creditors according to the nature of their respective claims and interests: *Provided, however,* That the holders of all claims, regardless of the manner in which they are evidenced, which are payable without preference out of funds derived from the same source or sources shall be of one class. The holders of claims for the payment of which specific property or revenues are pledged, or which are otherwise given preference as provided by law, shall accordingly constitute a separate class or classes of creditors.

At the hearing or a continuance thereof the judge may refer any special issues of fact to a referee in bankruptcy or a special master for consideration, the taking of testimony, and a report upon such special issues of fact, if the judge finds that the condition of his docket is such that he cannot take such testimony without unduly delaying the dispatch of other business pending in his court, and if it appears that such special issues are necessary to the determiniation of the case. Only under special circumstances shall references be made to a special master who is not a referee in bankruptcy. A general reference of the case to a master shall not be made, but the reference, if any, shall be only in the form of requests for findings of specific facts.

The court may allow reasonable compensation for the services performed by such referee in bankruptcy or special master, and the actual and necessary expenses incurred in connection with the proceeding, including compensation for services rendered and expenses incurred in obtaining the deposit of securities and the preparation of the plan, whether such work may have been done by the petitioner or by committees or other representatives of creditors, and may allow reasonable compensation for the attorneys ar agents of any of the foregoing: *Provided, however,* That no fees, compensation reimbursement, or other allowances for attorneys, agents committees, or other representatives of creditors shall be assessed against the petitioner or paid from any revenues, property, or funds of the petitioner except in the manner and in such sums, if any, as may be provided for in the plan of composition. An appeal may be taken from any order making such determiniation or award to the United States court of appeals for the circuit in which the proceeding under this chapter is pending, independently of other appeals which may be taken in the proceeding, and such appeal shall be heard summarily.

Such compensation of referees in bankruptcy and special masters shall not be governed by section 40 of this Act.

On thirty days' notice by any creditor to petitioner, the judge, if he finds that the proceeding has not been prosecuted with reasonable diligence, or that it is unlikely that the plan will be accepted by said proportion of creditors, may miss the proceeding.

Comment

1946 Amendment.—Section 83(b) was amended by 60 Stat. 411 (1946).

The principal amendments (third paragraph) deal with references to special masters. Conditions are prescribed under which, and *only* under which, references may be made, and the references are limited in their scope to "requests for findings of specific facts." General references are prohibited.

The amendment also provided that refer-

ences, when made, may be made to a referee in bankruptcy, acting as a special master, and that only under "special circumstances" shall references be made to special masters who are not referees. A similar directive appears in § 117 of Chapter X of the Bankruptcy Act, as amended by 60 Stat. 331 (1946), and like that provision, the change in § 83(b) embodies the thought that district judges should make use of the regular, trained personnel of the referee's courts.

It is also expressly provided that § 40 of the Act shall not govern compensation of referees and special masters in Chaper IX cases. Allowances are therefore within the discretion of the district judges, although they must be reasonable.

(c) Upon entry of the order fixing the time for the hearing, or at any time thereafter, the judge may upon notice enjoin or stay, pending the determination of the matter, the commencement or continuation of suits against the petitioner, or any officer or inhabitant thereo, on account of the securities affected by the plan, or to enforce any lien or to enforce the levy of taxes or assessments for the payment of obligations under any such securities, or any suit or process to levy upon or enforce against any property acquired by the petitioner through foreclosure of any such tax lien or special assessment lien, except where rights have become vested, and may enter an interlocutory decree providing that the plan shall be temporarily operative with respect to all securities affected thereby and that the payment of the principal or interest, or both, of such securities shall be temporarily postponed or extended or otherwise readjusted in the same manner and upon the same terms as if such plan had been finally confirmed and put into effect, and upon the entry of such decree the principal or interest, or both, of such securities which have otherwise become due, or which would otherwise become due, shall not be or become due or payable, and the payment of all such securities shall be postponed during the period in which such decree shall remain in force, but shall not, by any order or decree, in the proceeding or otherwise, interfere with (a) any of the political or governmental powers of the petitioner; or (b) any of the property or revenues of the petitioner necessary for essential governmental purposes; or (c) any income-producing property, unless the plan of composition so provides.

Any agency or instrumentality referred to in section 81 of this chapter may file a petition for a preliminary stay with the court referred to in section 83(a) stating (a) that the petitioner is insolvent or unable to meet its debts as they mature; (b) that it desires to effect a plan for the composition of its debts, a copy of which is filed and submitted with the petition; (c) that a creditor of the petitioner holding a security affected by the plan or a person claiming to be such a creditor (naming him and giving his address and the name and address of his attorney of record, it any), is attempting or threatening to obtain payment of said security in preference to other creditors by means of the commencement or continuation of a suit or process of the class hereinbefore in this section 83(c) described;(d) that efforts are being made in good faith to the end that creditors of the petitioner owning not less than 51 per centum in amount of the securities affected by the plan (excluding, however, any such securities owned, held, or controlled by the petitioner) shall accept it in writing; (e) that there is a reasonable prospect of such acceptance within a reasonable time; (f) that upon such acceptance the petitioner intends to file a petition under section 83(a) of this chapter; and (g) that the petitioner prays that the judge will upon notice enjoin or stay the commencement or continuation of said suit or process. A single petition may seek the preliminary stay of several suits or processes brought or threatened by the same or different creditors or persons claiming to be creditors. The petition shall be accompanied by the filing fee required in section 83(a) of this chapter, unless such fee shall have been paid upon the filing of an earlier petition for a preliminary stay involving the same plan, and no further fee shall be required upon the subsequent filing of a petition under said section 83(a). Upon such petition the judge shall fix a time and place for hearing and direct that notice thereof shall be given in such manner as he shall prescribe to said creditor or person claiming to be a creditor and to any other person deemed by him to be interested. After such hearings, and upon being satisfied of the truth of the allegations of the petition, the judge may,

in his discretion, except where rights have become vested, enjoin or stay the commencement and continuation of said suit or process until a date fixed by him in his order not exceeding sixty days from the date of entry thereof. The judge shall retain jurisdiction to vacate said injunction or stay, or to extend the period thereof for one additional period of not exceeding sixty days, upon good cause shown.

Comment

1946 Amendment.—Section 83(c) was amended by 60 Stat. 412 (1946). The amendment was accomplished by adding a new paragraph, now the second paragraph of subdivision (c) which permits an agency or instrumentality to file an application for a temporary stay of proceedings against it, prior to the filing of a petition for the composition of its indebted ness. In Senate Report No. 1633, 79th Cong., 2d Sess. (1946) 3-4, the following explanation for this new Chapter IX procedure was given: "In some instances while a district is contemplating proceedings for a composition of its indebtedness, which requires the preacceptance of the plan by 51 percent in amount of the securities affected by the plan, certain creditors or bondholders have instituted proceedings in an effort to secure a preference in the enforcement of their claims. In order to place all creditors on the same basis and in order to give the district a reasonable opportunity to put itself in a position to file a petition for a composition, the bill provides for a 60-day preliminary stay upon specific allegations to be set forth in the application. An extension of not more than 60 days may be granted by the judge upon good cause shown. A similar amendment was contained in a bill (H.R.2673, 77th Cong.) which was approved by the Judiciary Committee of the House and recommended for passage. The provision would be extremely helpful in situations where a comparatively short additional time is needed for the district to complete its arrangements for the filing of a petition under section 81 of the act." It was felt, too, that since § 83(i), *infra*, as amended, might eliminate the use of any state municipal debt adjustment legislation and thus prevent the securing of preliminary stays thereunder, the omission of a provision for the securing of a preliminary stay in Chapter IX cases would be a serious mistake, leaving a municipal debtor without any protection from importunate creditors while it was attempting to prepare a Chapter IX petition.

(d) The plan of composition shall not be confirmed until it has been accepted in writing, by or on behalf of creditors holding at least two-thirds of the aggregate amount of claims of all classes affected by such plan and which have been admitted by the petitioner or allowed by the judge, but excluding claims owned, held, or controlled by the petitioner: *Provided, however*, That it shall not be requisite to the confirmation of the plan that there be such acceptance by any creditor or class of creditors (a) whose claims are not affected by the plan; or (b) if the plan makes provision for the payment of their claims in cash in full; or (c) if provision is made in the plan for the protection of the interests, claims, or lien of such creditors or class of creditors.

(e) Before concluding the hearing, the judge shall carefully examine all of the contracts, proposals, acceptances, deposit agreements, and all other papers relating to the plan, specifically for the purpose of ascertaining if the fiscal agent, attorney, or other person, firm, or corporation promoting the composition, or doing anything of such a nature, has been or is to be compensated, directly or indirectly, by both the petitioner and the creditor thereof, or any of such creditors—either by fee, commission, or other similar payment, or by transfer or exchange of bonds or other evidence of indebtedness whereby a profit could accrue—and shall take evidence under oath to make certain whether or not any such practice obtains or might obtain.

After such examination the judge shall make an adjudication of this issue, as a separate part of his interlocutory decree, and if it be found that any such practice exists, he shall forthwith dismiss the proceeding and tax all of the costs against such fiscal agent, attorney, or other person, firm, or corporation promoting the composition, or doing anything of such a nature, or against the petitioner, unless such plan be modified within the time to be allowed by the judge so as to eliminate the possibility of any such practice, in which event the judge may proceed to further consideration of the confirmation of the plan. If it be found that no such practice exists, then the judge may pro-

ceed to further consideration of the plan.

At the conclusion of the hearing, the judge shall make written findings of fact and his conclusions of law thereon, and shall enter an interlocutory decree confirming the plan if he finds and is satisfied that (1) it is fair, equitable, and for the best interests of the creditors and does not discriminate unfairly in favor of any creditor or class of creditors; (2) complies with the provisions of this chapter; (3) has been accepted and approved as required by the provisions of subdivision (d) of this section; (4) all amounts to be paid by the petitioner for services or expenses incident to the composition have been fully disclosed and are reasonable; (5) the offer of the plan and its acceptance are in good faith; and (6) the petitioner is authorized by law to take all action necessary to be taken by it to carry out the plan. If not so satisfied, the judge shall enter an order dismissing the proceeding. No case shall be reversed or remanded for want of specific or detailed findings unless it is found that the evidence is insufficient to support one or more of the general findings required in this section.

Before a plan is confirmed, changes and modifications may be made therein with the approval of the judge after hearing upon such notice to creditors as the judge may direct, subject to the right of any creditor who shall previously have accepted the plan to withdraw his acceptance, within a period to be fixed by the judge and after such notice as the judge may direct, if, in the opinion of the judge, the change or modification will be materially adverse to the interest of such creditor, and if any creditor having such right of withdrawal shall not withdraw within such period, he shall be deemed to have accepted the plan as changed or modified: *Provided, however,* That the plan as changed or modified shall comply with all the provisions of this chapter and shall have been accepted in writing by the petitioner. Either party may appeal from the interlocutory decree as in equity cases. In case said interlocutory decree shall prescribe a time within which party may appeal from the interlocutory decree shall prescribe a time within which any action is to taken, the running of such time shall be suspended in case of an appeal until final determination thereof. In case said decree as in equity cases. In case said interlocutory decree shall prescribe a time within which any action is to be taken, the running of such time shall be suspended in case of an appeal until final determination thereof. In case said decree is affirmed, the judge may grant such time as he may deem proper for the taking of such action.

Comment

1946 Amendment.—Subdivision (e) of § 83 was amended by 60 Stat. 414 (1946). The changes are explained in Senate Report No. 1633, 79th Cong., 2d Sess., as follows: "Strengthening amendments have . . . been made in sections 83(e). . . . These relate principally to procedural matters designed to clarify the act and to make it more workable. At the end of the third paragraph of section 83(e) a new sentence is added which provides that no case shall be reversed or remanded for want of specific or detailed findings unless it is found that the evidence is insufficient to support one or more of the general findings required. The section now sets forth a number of ultimate findings which must be made by the judge and it is the purpose of the amendment to specify that the findings of the ultimate facts, without a finding of detailed facts to support them, shall be sufficient unless the evidence is insufficient to support them."

(f) In[1] an interlocutory decree confirming the plan is entered as provided in subdivision (e) of this section, the plan and said decree of confirmation shall become and be binding wupon all creditors affected by the plan, if within the time prescribed in the interlocutory decree, or such additional time as the judge may allow, the money, securities, or other consideration to be delivered to the creditors under the terms of the plan shall have been deposited with the court or such disbursing agent as the court may appoint or shall otherwise be made available for the creditors. And thereupon the court shall enter a final decree determining that the petitioner has made available for the creditors affected by the plan the consideration provided for therein and is discharged from all debts and liabilities dealt with in the plan except as provided therein, and that the plan is binding upon all creditors affected by it, whether secured or unsecured, and whether or not their claims have been filed or

evidenced, and, if filed or evidenced, whether or not allowed, including creditors who have not, as well as those who have, accepted it. If securities are deposited by the petitioner with the court or disbursing agent for delivery to the creditors, such final decree shall not be entered unless the court finds and adjudicates that said securities have been lawfully authorized and, upon delivery, will constitute valid obligations of the petitioner, and that the provisions made to pay and secure payment thereof are valid.

Comment

1946 Amendment.—Subdivision (f) of Section 83 was amended by 60 Stat. 415 (1946). According to Senate Report No. 1633, 79th Cong., 2d Sess., "[The amendment] requires the court to determine the validity of the new bonds which the final decree will require the creditors to accept, and the validity of the provisions for the payment of the new bonds. New bonds should not be issued unless they have been declared by the court to be valid in every respect."

(g) A certified copy of the final decree, or of any other decree or order entered by the court or the judge thereof, in a proceeding under this chapter, shall be evidence of the jurisdiction of the court, the regularity of the proceedings, and the fact that the decree or order was made. A certified copy of an order providing for the transfer of any property dealt with by the plan shall be evidence of the transfer of title accordingly, and, if recorded as conveyances are recorded, shall impart the same notice that a deed, if recorded, would impart.

(h) This chapter shall not be construed as to modify or repeal any prior existing statute relating to the refinancing or readjustment of indebtedness of municipalities, political subdivisions, or districts: *Provided, however,* That the initiation of proceedings or the filing of a petition under section 80 of this Act shall not constitute a bar to the same agency or instrumentality initiating a new proceeding under section 81 of this chapter.

(i) Nothing contained in this chapter shall be construed to limit or impair the power of any State to control, by legislation or otherwise, any municipality or any political subdivision of or in such State in the exercise of its political or governmental powers, including expenditures therefor: *Provided, however,* That no State law prescribing a method of composition of indebtedness of such agencies shall be binding upon any creditor who does not consent to such composition, and no judgment shall be entered under such State law which would bind a creditor to such composition without his consent.

Comment

1946 Amendment.—Subdivision (h) and (i) of 83 were amended by 60 Stat. 415 (1946). In *Faitoute Iron & Steel Co. v. City of Asbury Park* (1942), 316 U.S. 502, 49 Am.B.R.(N.S.) 495, 62 S.Ct. 1129, 86 L. Ed. 1629, the Court held that Chapter IX, by providing merely a means whereby a plan for municipal financial adjustments could be effected, nevertheless reserved full freedom to the states with respect to proceedings of this nature and did not deprive a state of the power to provide for similar proceedings of its own under state statutes which would be binding on creditors. The amendment was intended to abrogate this holding. As stated in Senate Report No. 1633, 79th Cong., 2d Sess.: "An amendment to section 83(i) provides that State legislation dealing with compositions of municipal indebtedness shall not be binding on nonconsenting creditors. State adjustment acts have been held to be valid, but a bankruptcy law under which bondholders of a municipality are required to surrender or cancel their obligations should be uniform throughout the 48 States, as the bonds of almost every municipality are widely held. Only under a Federal law should a creditor be forced to accept such his consent."

(j) The partial completion or execution of any plan of composition as outlined in any petition filed under the terms of this Act by the exchange of new evidences of indebtedness under the plan for evidences of indebtedness covered by the plan, whether such partial completion or execution of such plan of composition occurred before or after the filing of said petition, shall not be construed as limiting or prohibiting the effect of this title, and the written consent of the holders of any securities outstanding as the result of any such partial com-

pletion or execution of any plan of composition shall be included as consenting creditors to such plan of composition in determining the percentage of securities affected by such plan of composition.

SECTION EIGHTY-FOUR (11 U.S.C. § 404)

Comment

1946 Amendment.—By 60 Stat. 416 (1946), § 84, dealing with termination of jurisdiction, was repealed. By virtue of this repeal and the reenactment of § 81-83, as amended, Chapter IX became a permanent part of the Bankruptcy Act.

[1]So in original. "If" was undoubtedly intended, of indicated in Senate Report No. 1633, 79th Cong., 2d Sess. (1946) 10.

Appendix G

PLAN OF COMPOSITION FOR MEDLEY, FLORIDA UNDER CHAPTER IX OF THE BANKRUPTCY ACT

WHEREAS, the Town of Medley, Florida, a municipal corporation (hereinafter called the Petitioner), existing under the Laws of the State of Florida, is insolvent and unable to meet its debts as they mature and,

WHEREAS, the Petitioner is entitled to the benefits of Chapter IX of the Bankruptcy Act of the United States of America and seeks the benefits and privileges provided therein and,

WHEREAS, the Petitioner is indebted to creditors affected by this plan of composition in the approximate gross amount of $700,000, which it is unable to pay, except as provided in this plan of composition and,

WHEREAS, the Petitioner expects to receive a total gross income consisting of taxes levied on real and personal property, special and other revenues, in the approximate amount of $180,000 for its fiscal year October 1, 1968 to September 30, 1969, and a sum no less than said sum for each fiscal year of the Petitioner thereafter and,

WHEREAS, out of the mentioned approximate gross income of $180,000, by reducing its costs for operating under a most austere, frugal and businesslike program, the Petitioner will be able to operate; to meet its bonded indebtedness hereinafter mentioned which requires approximately $57,000 per annum for principal and interest; can meet the balance of approximately $5,000 on account of its mortgage covering its Town Hall property payable at $84 per month; leaving sufficient funds to pay the creditors affected by this plan 100% of the principal amount of their claims as hereinafter defined, without interest, by installment payments over a period of approximately ten (10) years.

NOW THEREFORE, the Petitioner proposes and agrees:

1. That the Judge of the United States District Court shall appoint a Trustee or disbursing agent with whom the Petitioner will deposit the sum of $70,000 on the first day of May of each consecutive calendar year thereafter until 100% of the total amount of the principal amount, without interest, of the claims of all creditors affected by this plan shall have been paid in full in the manner hereinafter set forth.

2. Within thirty (30) days after receipt of the mentioned $70,000, each respective creditor's prorata share of the said $70,000 based on the ratio the principal amount of each respective creditor's claim bears to the total amount of the claims of all creditors affected by this plan.

3. The Trustee or disbursing agent shall at all times have a list of all creditors affected by this plan who shall constitute one (1) class, and there shall be no preference between creditors affected by this plan, whether or not their claims have been reduced to judgment.

4. For the purpose of determining the principal amounts of claims affected by this plan, the Petitioner proposes that:

(a) Where claims have been reduced to judgment, the original principal amount of the judgment on the date the judgment was entered, less any payments heretofore made in reduction of the judgment by the Petitioner, shall be the total amount of said claim; and all interest from date of judgment shall be waived.

(b) Where the claim is the claim of a bank creditor, with or without a judgment, the total amount of the claim shall be the principal amount of the Petitioner's original indebtedness to said bank less any amounts heretofore paid on account of the said bank creditor, whether interest has heretofore accrued or was payable hereafter.

(c) Where there are other claims of creditors affected by this plan which have not been reduced to judgment, and the same are claims for goods, services or other consideration, the total amount of the claim shall be the amount due by the Petitioner on the date the final balance was due, less any payments heretofore made thereon, and all interest from the date the final balance was due shall be waived.

(d) As to the contingent and liquidated claims of AUGUST H. DREESON, AUGUST V. DREESON and GEORGE RIVEST, in their suit pending in the Circuit Court of the 11th Judicial Circuit of Florida (Civil Action No. 68-6261), the petitioner will resist said claims in litigation but if reduced to judgment against the Petitioners, the claims, if any, shall be the amount of the judgment without interest thereafter and payable in accordance with this plan.

(e) On November 30, 1966, under Law No. 64 L 4246 in the Circuit Court of the 11th Judicial Circuit of Florida, a final judgment in the amount of $125,000 was entered against the Petitioner in favor of GEORGE CAPLAN, SOLOMON CAPLAN and ALBERT CAPLAN, doing business as MEDLEY AUTO WRECKERS. An appeal was taken by the Petitioner to the District Court of Appeal for the Third District (Case No. 67-297), and in its opinion filed February 20, 1968, the District Court of Appeal reversed the judgement. However, there is pending on this appeal in the District Court of Appeal for the Third District a petition for re-hearing and a request for certification of question to the Supreme Court of Florida. While the Petitioner has every reason to believe that this case will not result in a money judgement against the Petitioner, nevertheless in the event an effective money judgement against the Petitioner ultimately results, the principal amount of the judgement shall be the claim allowed under this plan, with all interest waived from date of judgement.

5. The Trustee or disbursing agent shall, from the effective date of this plan of composition, until it terminates, have in his possession the list of creditors affected by this plan, together with their addresses and the total amount of the respective creditor's claims as determined hereinabove, except that where a creditor has assigned, transferred or otherwise negotiated his claim, the Trustee or disbursing agent shall be given in writing the name and address of the assignee or holder of the claim.

6. The amounts received by the Trustee or disbursing agent as hereinabove provided shall be net for distribution to the creditors; and the Petitioner shall pay separately any costs and expenses of the Trustee or disbursing agent as allowed by the court.

7. No costs or expenses of a creditor in connection with the proceeding for the confirmation of this plan or otherwise shall be assessed to the Petitioner.

8. The Petitioner will pay separately out of the funds available to it from its gross income and not out of funds herein provided for payment to affected creditors the costs of its filing fee, printing, postage and incidental expenses in connection with this proceeding and the fee which it has agreed to pay to its attorney, Leonard L. Kimball, for the preparation of this plan of composition and for all proceedings required for its confirmation, said fee being $750 as a retainer and a sum equal to 7% of the total amount of claims of affected creditors, payable in five (5) equal annual installments, beginning February 1, 1969, payment of the said costs and attorney's fee being subject to the approval and confirmation by the court.

9. Within the time prescribed in the interlo-

cutory decree of the court and as directed by the court, the Petitioner will deliver to the affected creditors under the terms of the plan its negotiable, non-interest bearing Certificates of Indebtedness; and each Certificate of Indebtedness shall incorporate:

(a) the date of its issuance;
(b) the name of the Petitioner as the Promissor, signed by the Petitioner;
(c) the name and address of the creditor affected by this plan as the promissee;
(d) the principal amount of the Certificate of Indebtedness, which shall be the amount of the creditor's claim as herein defined;
(e) the terms, conditions and manner of payment, which shall be in accordance with this plan, and the provisions of the plan shall be incorporated in the Certificate of Indebtedness by reference thereto;
(f) the name of the Trustee or the paying agent;
(g) provisions making the Certificate of Indebtedness freely assignable, transferable and negotiable.
(h) provisions that in the event the Petitioner fails to deposit the funds required to pay the Certificate of Indebtedness, the promissee, its successors, assigns or assignees or holders of the Certificate of Indebtedness shall have the option to declare the Petitioner in default, without notice, and may thereupon by petition or otherwise apply to the court which confirmed the plan of composition and obtain such order, judgement or decree as may be necessary to compel the Petitioner to comply with the plan of composition; and the holder's costs and reasonable attorney's fees to effect collection shall be payable by the Town of Medley.

10. The court shall at all times retain jurisdiction of the parties and subject matter of the proceedings, for the enforcement of this plan of composition; and no claim, note, judgment or other security shall be deemed to have been surrendered and discharged until full payment has been made as provided in this plan.

11. The Petitioner under this plan will by ordinance or otherwise continue to levy and collect taxes and revenues allowed by law and necessary for the payments provided under this plan, and will adopt such budgets and do any and all things necessary to carry out this plan according to the terms thereof.

12. This plan specifically does not affect as creditors the following:

(a) The holders of Petitioner's Public Improvement Revenue Bonds, issued in 1964 in the original total amount of $152,000;
(b) The holders of the Petitioner's General Improvement Bonds, issued in 1964 in the original total amount of $300,000; and $300,000; and
(c) The holders of the Petitioner's General Obligation Refunding Bonds, issued in 1967 in the original amount of $395,000

and specically preserves all the rights, claims, and liens of such bondholders under the terms of said bonds. The Petitioner will pay said bonds as they mature according to ther terms thereof.

(d) The Dade Federal Savings & Loan Association, Miami, Florida as mortgage on the mortgage covering Petitioner's Town Hall property, the balance on said mortgage being approximately $5,000.

13. The petition to which this plan shall be attached will not be filed by Petitioner in proceedings in the United States District Court for the Sourthern District of Florida under Chapter IX of the Bankruptcy Act until the Petitioner has obtained in writing the acceptance of this plan from creditors owing not less than 51% in amount of the securities and claims affected by the plan.

Dated at Medley, Florida, this 6th day of May, 1968.

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