

George C. Skillman

History of the division of local government, 1917-1967

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A  
History  
of

THE DIVISION OF  
LOCAL GOVERNMENT

1917-1967

by  
George C. Skillman

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## **About the Author**

Mr. George C. Skillman was born in Belle Mead, New Jersey on July 22, 1889. He was graduated from Rider College, Trenton, New Jersey. He qualified as a Registered Municipal Accountant in 1933 and a Certified Public Accountant in 1942.

Mr. Skillman began his State employment in the office of the State Comptroller on November 1, 1908. He transferred to the Division of Local Government on December 1, 1920 and was appointed Assistant Director of Local Government on July 1, 1949. On October 16, 1953, Governor Driscoll appointed Mr. Skillman Director of the Division of Local Government.

Mr. Skillman retired as Director on February 1, 1966 after more than 57 years of State service. He makes his home in Belle Mead, New Jersey with his wife, the former Rachel Van Nuys Hagaman. They have two children, George C. Jr. and Jane S.

# **DIVISION OF LOCAL GOVERNMENT STATE OF NEW JERSEY**

## **FOREWORD**

This will be the story of a small state agency which has had a half century of contacts and experiences in dealing with the 567 municipalities and 21 counties of New Jersey. The Division started as a part of the State Treasury Department in a small way in 1917, headed by a Commissioner of Municipal Accounts, and a staff consisting of 2 field auditors, a stenographer and a typist. It has grown over the years, but never sought to become a "big" State Agency.

Most of the material in this report dealing with the early years is based on the writer's recollection with the help of a few field notes. The Division was not able to secure funds to print an annual report for several years and thus there is no printed record of the activities of the Division until 1938. Added comments on the annual report appear in a subsequent paragraph.

Actually these reports are reports of the financial condition and activities of the municipalities and counties. It is only fair to state that a report of the activities and work of the Division in the early years, excluding the financial statements which were available, would have been mainly a progress report of conferences and meetings relating to the new finance laws and the problems of local units in operating under them. There were also the problems of sinking funds for the retirement of term bonds, many of which were inadequate to meet the bonds to which they were pledged. There were also many problems in operating under the new uniform local budget laws.

## **MUNICIPAL AND COUNTY DEBT PROBLEMS**

Prior to 1920 municipalities and counties in New Jersey with the rest of the country, embarked on an extensive and expensive program of public improvements. The gross debt of these municipalities and counties was something less than \$400,000,000 in 1922 increasing to \$1,070,000,000 in 1933.

The war years with the rigid controls, imposed on non-war capital spending, did result in reducing the gross debt substantially. It is also interesting to note that a billion dollar gross debt for counties and municipalities did not come back into the picture until 1957. By that time there was a great increase in assessed valuations and population.

Questions may be raised at this point as to why more attention was not paid to the amount of taxes collected from the current tax levy. It must be kept in mind, however, that up to the late 20's the collections from current and delinquent taxes had produced sufficient cash to meet current operations and to pay debt service, and at the same time, provide cash to meet required payments to the county and school district.

## **TEMPORARY DEBT**

The laws in effect in the 20's permitted temporary improvement notes to be issued in anticipation of the issuance of permanent bonds after a bond ordinance had been passed. The issuance of the temporary bonds for a 5 year period with issuance of the permanent bonds delayed, created a real problem. When the temporary obligation fell due, there was a legal obligation to issue the permanent bonds and use the proceeds to pay off the outstanding bond anticipation notes. The only trouble was — there were no bidders for the permanent bonds — the result; default on the temporary debt.

## **REAL ESTATE MARKET – TAX COLLECTION – TAX BORROWING AND TAX TITLE LIENS**

Since there was no market for real estate, developers were unable to market property which they had for sale and thus enable them to pay taxes on their holdings. In many instances individual owners were in the same predicament. Insofar as the municipality was concerned, the taxes could be pledged to "tax revenue notes" with the proceeds of the delinquent taxes pledged to the notes. This provided a form of relief, but obviously it was purely temporary.

The statutes permitted the sale of real estate on which the taxes for the preceding year were delinquent as of July 1st of the year following delinquency by "tax sale" held by the municipality, but in most cases there were no outside buyers, with the result that the property was "struck off" to the municipality. This gave the municipality a prior lien to all others on the property, with the eventual right to foreclose the lien and thus secure a marketable title – but no cash.

The failure to collect taxes not only left the municipality without cash for operations and debt service but also without cash to pay the school district and county their share of the taxes included in the municipal tax bill.

## **BIRTH OF THE DEPRESSION – SCRIP**

Thus the "Great Depression" of the '30s was born so far as New Jersey was concerned. Widespread unemployment and problems of aid to the unemployed complicated by the "bank holiday", and the eventual closing of many banks, brought about a situation where municipalities had no cash to pay salaries and wages, let alone pay ordinary "housekeeping expenses."

The answer was "Scrip." This became a medium of payment not limited to municipalities, but extending to counties and school districts.

No records as to the extent of the use of scrip or baby bonds (which were tax revenue bonds in small denominations) are available. A fair estimate would be that 20% or better of all local units used other than cash or bank checks in the payment of claims. The Division, at that time, had no contacts with local boards of education but the school laws already had provision for "warrants" so it is fair to estimate that "warrants" were used to a greater extent than scrip.

General economic conditions did not improve, nor did tax collections. Records which are available show that only 22% of all municipalities collected more than 70% of current taxes in 1932, and only 13% collected more than the same percentage in 1933. The overall current collection experience in 1933 was less than 50% of the total levy, and it was conceded that this was the lowest collection record in the depression period and is probably an all time low.

## **EFFECT OF NON-COLLECTION OF TAXES ON COUNTIES AND SCHOOL DISTRICTS**

Counties and school districts should theoretically have received their share of the taxes levied for county and school purposes, but in many instances did not receive even their proportionate share of the amounts collected in cash.

The courts had held that a county was entitled to the full amount of the County levy regardless of the amount collected by the municipality; and it was generally conceded that the same ruling would hold in the case of a school district.

The municipality had the legal power to borrow on tax revenue notes, which notes would be secured by a pledge of the delinquent taxes, but the banking situation was such that loans of this type could not be negotiated and endless confusion resulted, with eventual result that there were defaults in the payment of debt service costs by the municipality, school district (and in a limited number of cases by the county).

## **LEGISLATION REMEDIES CHAPTER 233, CHAPTER 60, MUNICIPAL FINANCE ACT**

Legislation commonly known as "Chapter 233" (Laws of 1934), and "Chapter 60" (Laws of 1934) was enacted in an endeavor to improve or correct conditions.

Chapter 233 permitted refundings without any State control whatsoever. The plan was usually based on an agreement between the municipality and a group of creditors, a financial house or a banking institution.

Chapter 60 was a carefully drawn act which permitted funding or refunding conditioned upon the municipality accepting a "full cash basis budget" after the refunding was completed. This plan was not substantially different from the "cash basis budget" required by the 1936 revision of the then existing local budget law. The financial plan involved was sometimes rather harsh, but the results were excellent.

## **MUNICIPAL FINANCE COMMISSION LAW**

There was one phase in the activities of the Division and its Commissioner which preceded the activities under the statutes previously discussed. The Legislature in 1931 enacted the Municipal Finance Commission Law (Chapter 340, L 1931).

This act made it possible for the holder of notes or bonds of any New Jersey municipality, in default in the payment of principal or interest on its debt, to secure an order to that effect. Upon the filing of the order with the Clerk of the Supreme Court the Municipal Finance Commission began to function in and for the municipality.

The original 1931 act, in addition to the powers granted the holder of defaulted obligations, permitted a municipality by resolution, to petition the Municipal Finance Commission to function in the municipality. This provision was revised in 1933, to require such resolution to be filed with a Justice of the Supreme Court, who was required to investigate the facts, and if he was satisfied that the municipality was, in fact, in default and unable to meet its obligations would issue an order which order became effective upon its filing with the Clerk of the Court. All of the provisions of this statute (with amendments) are still in force and available to creditors.

## **COMPOSITION OF COMMISSION**

The first Commission was comprised of the Commissioner of Municipal Accounts, the State Tax Commissioner and the Attorney General. This membership was continued until 1938, when the Local Government Board was created by law. The Commissioner of Local Government was by law named as the ex-officio Chairman of the Board and the appointed members of the Board named as members thereof.

The original act was signed April 28, 1931, but the Commission did not actually function until June 11, 1931. The Township of North Bergen in the County of Hudson, was the first municipality to adopt a resolution declaring it was unable to meet its indebtedness and petitioned the Commission to function in the Township. This resolution was duly filed. This Commission has been in continuous session since that date.

## **HISTORY OF MUNICIPAL FINANCE COMMISSION LAW**

Historically the Act followed along the lines of a statute previously adopted by the State of Massachusetts with particular reference to the City of Fall River. The City had gotten into financial difficulties due to the closing of many of its industries which created widespread unemployment, the loss of tax revenues and consequent defaults. The result was special legislation to correct the situation.

The powers of the Fall River Act were more stringent than the New Jersey statute, in that the management group had full power to "hire and fire" employees. Under the New Jersey Act the Commission had full control over annual budget and the naming of an auditor, but the municipality retained control over employees and other expenditures within budgetary limits. In other words, a certain amount of Home Rule was retained by the local unit — and generally speaking this worked to the benefit of all concerned including the creditors.

The term "Municipal Bankruptcy Law" was never used in referring to the statutes. This was based on the fact that a municipal corporation could not be adjudged bankrupt and the corporation liquidated.

The Legislature is the only body that can dissolve or "closeout" a municipal corporation.

## **MUNICIPALITIES UNDER COMMISSION**

It will be noted that 23 municipalities have been under Commission jurisdiction; 18 have been released and 5 still remain under Commission jurisdiction. In some cases municipalities do not seek to be released, while in others the Commission is of the opinion that the benefit of the Municipal Finance Laws should be available to the municipality.

## **THE FUNDING COMMISSION**

The Funding Commission law was enacted in 1935 (Article 6A, Chap. 77 Laws of 1935). The membership of the Commission was the same as that of the Municipal Finance Commission. The Commission was charged with the duty of approving all fundings or refundings which were undertaken thereunder.

This provided for a more orderly procedure than that required under Chapter 233 and Chapter 60, previously mentioned. The Commission as a condition to approval required the presentation of a plan with a projection of debt service, operating costs, etc. The Local Government Board took over the duties of the Funding Commission along with the Municipal Finance Commission on July 18, 1938.

It is interesting to note that the first meeting of the original Funding Commission was held on April 30, 1935. The approved refunding's from that date to April 2, 1937 amounted to just over \$74,000,000.

The volume of approvals by the Funding Commission has dropped steadily in recent years as special problems of unbalanced debt service calendars and floating debt were disposed of.

## **SCHOOL FINANCING EXTENSION OF CREDIT**

In 1947 the problems of issuing school bonds to provide housing for an exploding school population in New Jersey made it necessary to provide a Legislative method of issuing school bonds in special cases without disturbing the normal limit for gross and net debt.

The result was the passage of Chapter 133, Laws of 1947 permitting a school district to



issue bonds outside the legal debt limit when the school debt to be incurred used up all the borrowing power of the school district and the borrowing power of the municipality and caused the borrowing power to exceed the statutory limit provided for by the Local Bond Law.

The State Commissioner of Education was required to certify that the debt to be incurred by the school district was necessary and the facilities to be provided would be 80% utilized in 5 years and 100% in 10 years, and, that the program was the best and least expensive method of meeting the needs of the district. If the Commissioner approved the proposal it was then certified to the Local Government Board.

The Local Government Board was then required to review the proposals and make a determination as to whether the cost was unreasonable or exorbitant and would impair the credit of the municipality. The Board after a public hearing on the proposal proceeded to make the determination required of it.

Sufficient to say the Board has approved a billion dollars worth of new school construction since the passage of the Act and there have been no defaults or delays in the payment of interest or principal.

#### **MUNICIPAL FINANCING – EXTENSION OF CREDIT**

As some of the pressing problems of new school housing were solved, many municipalities found themselves without borrowing power, but, with a pressing need for new buildings, roads and utilities. Much capital construction had been delayed by military restrictions during World War II, and further delayed by the needs for school housing.

Many of these needs had been catalogued by the Division in the closing years of the war and the Legislature had been advised of the results so that there was some knowledge of these capital needs, but legislation was not approved until 1957. Chapter 180, P. L. 1957 was approved August 15, 1957 but was not availed to any great extent until many school problems were solved.

Chapter 180 permitted the Local Government Board after public hearing to approve an extension of credit upon application of the municipality. The municipality had to submit proof that there was a pressing need for the improvement, and representatives, including the auditor and engineer or architect had to testify as to the effect on the finances of the municipality, and that the plan was the best and least expensive that could be devised.

Over two hundred million dollars worth of new capital improvements have been approved by the Board since the passage of the act, and again, there have been no delays or default in the payment of debt.

#### **FISCAL SUPERVISION LAWS (PRINCETON SURVEY BILLS.)**

The Princeton Survey Bills were enacted into law in 1938. They were prompted by a survey dealing with financial problems of municipalities and was intended to save municipalities from final collapse. Most important of these bills was the Fiscal Supervision Act, the highlights, being expressed in its "Purpose".

"The purpose of this Act is to impose special restraints upon municipalities in, or in danger of falling into, unsound financial condition and in this way to forestall service defaults upon local obligations and demoralize finances that burden local taxpayers and destroy the efficiency of local services."

The Fiscal Supervision Act takes effect in a municipality when a default exists, when amounts are owing to the State, County or School District for more than 2 years, when the "Cash Deficit" of the preceding years amounts to more than 5% of the total levy and when current tax collections for 2 successive years fall below 50%.

The application of the statute placed more than 50 municipalities under the jurisdiction of the Local Government Board, all of which have since been released.

The statute was intended to be a preventive law placing some orderly controls over municipalities and prevent them from getting into a position which would make it necessary to have recourse to the Municipal Finance Commission statutes. The statute served its purpose and while the number of municipalities falling under the jurisdiction of the Act are not numerous it is still applicable and used in certain cases.

### **ANNUAL REPORTS OF DIVISION**

The original statute directed the Division to publish an annual report and a preliminary report was published for 1917-18 but appropriations were not provided for further reports until 1938. New legislation at that time commanded the printing of an annual report of the financial condition of all counties and municipalities. Thus there is now an annual "report of comparative financial statistics of Local Government tabulated to show the costs of government, the cost of principal services, the amount of debt and other pertinent data" from 1938 through 1966.

This report is normally released about eight months after the close of the year ending December 31st. In a study of the completion date of reports of this type it was found that many states did not release this type of report until some two or three years after the close of the fiscal period, with the result that it was more of an historical document than a report of current finances. The Division has continuously sought to use every effort to avoid delays in making the Annual Report available at the earliest possible date.

### **LOCAL GOVERNMENT BOARD REPORTS**

The Local Government Board is directed by law to publish a report, which it has done since September 1939. This report deals with matters pertaining to desirable legislation and fiscal and other matters which the Board feels should be brought to the attention of the Governor and Legislature.

The first Report of the Board released in September 1939 merits study. It sets forth many of the activities of the Board in some detail and indicates the many contacts made with other groups interested in local finance and matters relating thereto.

### **REQUIREMENT OF AUDIT**

The Division was directed to prepare a uniform system of accounts for municipalities and counties. A "Uniform System of Accounting" was prepared in the early years followed by a "Chart of Account". These were followed by a "Handbook for Municipal Officials" published in 1945 (which incidentally won the Louisville Award for the late Walter R. Darby, then Director). "Uniform Accounting Requirements" was published some years later, but, it was found that the Registered Municipal Accounts in many instances were installing new systems as the need arose with result that the Division relied on the "Requirements of Audit" as their working guide.

The original Requirement was promulgated in the early 20's and has been revised and enlarged until it is now a "guide book" for municipal accountants and local finance officers.

It serves to produce uniform reports and audits of all municipalities and counties, and I believe the registered municipal accountants will agree that is of more practical value than a handbook of officials.

Furthermore the increase in the use of mechanical systems followed by the computer would call for endless changes in any publication which sought absolute uniformity.

The Requirement of Audit has been in great demand in other states where local units are seeking uniformity in accounting.

## **BUDGET MANUAL**

The Division publishes a Budget Manual each year. This serves as a guide to finance officers and accountants. It sets forth any legal or other changes which affect the next year's budget and is a standard guide required for budget preparation.

## **NEWS LETTER**

In the year 1922 the Department, now the Division, published its first "News Letter." This has been furnished to all municipal clerks and registered municipal accountants since that time. This was compiled by members of the staff, there being no set date for publication. It was published when the Division had something of importance, or of general interest to tell the municipality or the registered accountants. The demand on the part of all members of governing bodies and officers (other than the clerk) led the Division to accept subscriptions for additional copies, to the end, that the number of paid subscriptions has become quite an item of revenue.

No one was ever assigned to the specific duty of getting this letter out, but it appeared to get careful attention regardless of how frequently or infrequently it was published. It is to be hoped that it continues in its present form.

## **SURETY BONDS AND SHORTAGES— MUNICIPALITIES AND LOCAL COURTS**

The embezzlement of funds and shortages in the handling of public funds by collecting officers developed into a serious problem for the Division, and in some cases an expensive problem for municipalities particularly in the depression years with the result that Chapter 257, Laws of 1941, was enacted.

This Act was the outcome of a study made by the Division and Princeton Surveys. It directed the Local Government Board to fix a minimum surety bond on every tax collector in the State, and called for corporate surety on every such tax collector. This requirement has since been extended to cover the accounts of utilities collectors.

After many conferences with rating agencies, the State Banking Department and firms, writing corporate surety bonds, the Board fixed a sliding scale depending on volume of funds handled, giving due consideration to internal controls in existence at the local level and certain other factors.

The results were so satisfactory that the Towner Rating Bureau voluntarily reduced the premium on this type of surety 15% some 2 years after the regulation was promulgated with a further reduction at a later date. Fixing the surety bond coverage at a fair figure saved some municipalities from a monetary loss, although it is only fair to state that it did not stop all shortages.

The Local Government Board was later directed by law to fix a minimum surety bond requirement in the case of local municipal courts. The Board promulgated a schedule of minimum amounts required, which was then approved by the Administrative Office of the

Courts, with the result that all bonds were brought up to at least the required minimum. Here again the results have been satisfactory.

## **VERIFICATION OF DELINQUENT AND OTHER TAXES AND LIENS**

In addition to approving a minimum surety bond requirement for municipalities, the Registered Municipal Accountant in making the statutory audit was required to test and verify, on forms furnished by the Division, the accuracy of delinquent taxes and liens and in addition make tests of tax payment dates.

This requirement applies to all municipalities and the minimum test was 10% of the number of delinquents or 10% of the dollar volume. These tests have been expanded from time to time as circumstances dictated. Wherever there is evidence of any unusual or unsound condition, a 100% verification is required.

The auditor prepares the forms, transmits them to the Division in bulk, and the Division mails them to the taxpayer who makes a return directly to the Division. Questioned items are then returned to the auditor for review and report.

The Division makes a handling charge for this work and now processes approximately 150,000 items annually. These tests have not eliminated all shortages but has reduced the number. Incidentally, it was found that these test verifications stimulated collections at the local level.

## **SHORT COURSES**

The writer was privileged to be one of the first lecturers at an evening course in "Municipal Finance Administration." The Bureau of Government Research and the University Extension Division of Rutgers sponsored this course which was well attended. The attendance was made up of finance officers, collectors, members of governing bodies and registered municipal accountants. Other representatives of the Division have also lectured at these courses from time to time.

Rutgers is still sponsoring courses in many subjects dealing not only with finance administration but with duties of municipal clerks, collectors and other municipal officials, not to mention the courses on taxation and assessments. Municipal officials, many of whom are holding part time jobs, derive great benefit from these courses.

## **TITLE 40 REVISION**

The County and Municipal Law Revision Commission was created by Chapter 231, P. L. 1956. The Director and Division Staff were privileged to work with the Commission Staff in preparing the original drafts of Chapter 2, Local Bond Law, Chapter 4, Local Budget Law and Chapter 5, Fiscal Affairs Law of a proposed Title 40 Revision.

## **LOCAL BOND LAW**

Chapter 2, the Local Bond Law became fully effective on June 22, 1964 and was the second revision of what was commonly known as the "Pierson Bond Law." The act was originally passed in 1916, revised in 1935, at which time the changes referred to in the next paragraph were made.

Three major changes were made in the 1935 Revision which had much to do with credit restoration. They were carried over to the last Revision. They were:

1. "Temporary improved bonds" with a 5 year life was changed to "Bond anticipation notes" with a life of not to exceed 2 years in 1935.

2. "Utility debt" deductible as a whole in the 1916 Act was revised to permit a deduction only when the "utility" was entirely self-liquidating.

3. Local Improvement Assessment debt was deductible as a whole in the original Act but no deduction was permitted in the 1935 Revision.

The major changes in the 1964 law were the substitution of an "equalized valuation basis" for "assessed valuation basis" and corresponding changes in the percentage of net debt from 4% to 2% in the case of counties and 7% to 3½% in the case of municipalities.

Many other changes were made, some were technical, and obsolete sections were deleted and language clarified. The result was a reduction in the size of the bill; 101 sections being reduced to 62.

The first revision in 1935 did much to help New Jersey through a period of reorganization from municipal defaults to an improved credit position and the changes made in the second revision have further improved the credit position of municipalities and counties. School debt deductions were revised to conform to the changes made in the final bill as a result of a companion bill sponsored by the State Department of Education.

The Revision has worked well and can properly be considered a "model bond law." It is important to note that the original 1916 law provided for serial bonds only, thus eliminating the further issuance of term bonds.

### **SINKING FUND ACT**

When the original bond law was passed there were some 300 sinking funds in existence. A bill commonly known as the "Sinking Fund Act" was passed which provided for bringing these up to a statutory standard so that there would be sufficient funds to meet all the term bonds at maturity. Several of these funds were deficient but it is interesting to note that all term bonds have been paid with less than a half dozen sinking funds still in existence. The last two will go out of business in 1976 and 1978.

### **LOCAL BUDGET LAW**

The first "Local Budget Law" was enacted in 1917. The requirement that every county and municipality prepare an annual budget was something new, in that there had been no uniformity in budget making up to the adoption of the 1917 Act. Copies of the budget were required to be filed with the Division but about the only real authority the Division had was to see that required appropriations were provided for debt service and deferred charges.

The law was completely revised in 1936 and provided for a full "cash basis budget," and required the Director to certify the approved budget only when it met the cash basis test and other statutory requirements.

The 1962 Revision followed the requirements of the 1936 Law insofar as the cash basis of operations was concerned but followed a more orderly pattern. Many obsolete sections were eliminated and others were clarified. The Revision became effective with the 1962 budgets and the transition from the prior Act to the new Act produced no confusion.

### **LOCAL FISCAL AFFAIRS LAW**

This is an entirely new chapter. It incorporates in a single chapter laws dealing with audits and auditors, public moneys, financial statements and other sections scattered through Title 40. The sections commented upon below are in substance just as important as the Bond Law or Budget Law. The annual audit is a report on the financial transaction and financial condition of the municipality or county, and is based on results produced by

the work of the registered municipal accountant.

## **MUNICIPAL AUDITS – REGISTERED MUNICIPAL ACCOUNTANTS**

Sections 5 to 12 inclusive, of Chapter 5, was originally Chapter 268, P. L. 1918, and *required* every county and municipality to have an annual audit made by a registered municipal accountant. The director was directed to license these accountants on a certification that the accountant was "fully acquainted with the laws controlling and governing the finances of municipalities and counties of New Jersey." This procedure was continued until 1921, when legislation empowered the Director to hold examinations to determine the qualifications of accountants. In 1934 the licensing was placed in the hands of the State Board of Public Accountants. This Board holds regular examinations for R.M.A.'s at the time of holding C.P.A. examinations.

The statutes gave the Director power to make a statutory audit when the local unit failed to designate an auditor or where the auditor failed to complete the audit within 4 months (now 5 months) after the close of the fiscal year.

The Division originally made a number of audits because of the failure of the local unit to designate the auditor with the result that the Division at one time made audits of some 10% of the municipalities and counties. Due to the increased number of R.M.A.'s available, the number of audits made by the Division has steadily decreased with the result that the present Division staff makes a very limited number of audits.

Many of the original R.M.A.'s were not C.P.A.'s but this has changed and more than a majority of R.M.A.'s are now C.P.A.'s. The plan of New Jersey worked well in the early years where there was a scarcity of auditors and is still working well.

The plan has been copied by other States as well as the plan of having required annual audits filed in some central place. It is of interest to note that the New Jersey plan is an example of Home Rule. The local unit can name any accountant who holds a license in full force and effect, and the fee is a matter of agreement between the local unit and the R.M.A. Bidding is not required and the regulations of the Certified Public Accountants do not permit solicitation of work by the accountant.

The work of municipal auditing is possibly more difficult than commercial auditing in that the regulations of the Division prescribe some rigid requirements, and some accountants say that these requirements are too unrealistic. On the other hand, public moneys are involved and basically the audits provide an independent review of the financial transactions involved.

## **CAPITAL BUDGETS**

Capital budgets for municipalities and counties had been under consideration by the Division for some time, and after careful study the Board promulgated a requirement that all counties and municipalities prepare a capital budget to be adopted by November 15, 1964, for the year 1965.

The results were good; 253 capital budgets were filed and 155 local units filed resolutions indicating that they had no projects under consideration. The results have improved and capital budget making has become an accepted requirement.

## **MECHANICAL SYSTEMS – COMPUTERS – ELECTRIC DATA PROCESSING**

Mechanical accounting systems have been in use for some years and the Division has reviewed many installations to see if they would work satisfactorily, but never specifically approved any one system. This left the selection of the machine to the local unit, with the

Division staff passing on the workability of the machines.

With the advent of the computer and E.D.P. a member of the Division staff was assigned to the specific duty of making a study of E.D.P. operations and installations. He has learned to program and has done, and is doing, an excellent job as a consultant and advisor. The computer field is becoming so big that a Bureau should be set up within Treasury Department to coordinate all E.D.P. operations.

## **OFFICE OF STATE AUDITOR**

The Department of Municipal Accounts became the Office of State Auditor by a statute consolidating the Department with the Office of State Auditor. The then Commissioner of Municipal Accounts, the late Walter R. Darby, became State Auditor by a 1933 statute and held this position until 1938, when the Department of Local Government was recreated and he was again named Commissioner, The Office of State Auditor becoming a new State agency.

During the period 1934 - 1938 the State Auditor carried on the State auditing activities required of him by statute and in effect had a separate Division for handling local government work.

The staff of the two agencies to an extent separated; one group performing State work and the other municipal work. On the other hand there were many occasions when the total manpower worked as a unit.

The State had just at that time begun to handle welfare on a State-wide basis and all of the auditing staff of the office was assigned to working out a system for this project. A temporary staff of something over 100 was recruited for the detail work with the supervision exercised by the Office of State Auditor. There were also many other duties handled by the combined staff.

In retrospect the Division of Local Government believes that some improvements in accounting and auditing procedures resulted from the joint activities of handling State and Local audits in one Department.

## **DISASTER 1962.**

In March 1962 the New Jersey Coast experienced what was termed "the hundred year storm." This storm affected some 60 municipalities and 5 counties, running from Cape May to Sandy Hook. The State Highway Department immediately put its manpower and equipment to work in the whole area and did an exceptional job in temporarily restoring roads, streets and other services wherever possible. The State Legislature almost immediately appropriated \$2,500,000 and Federal Aid was also secured.

The total commitment against this appropriation was \$2,484,245.88, representing 50% aid to the local units. Federal aid was also received and channeled through the State Treasurer.

The State Treasurer immediately upon the passage of the appropriation bill called on the Division for assistance in processing and auditing claims. An auditor was immediately assigned to this duty. He spent many months on this assignment working directly with the local units and registered municipal accountants.

The auditing and processing of claims was expedited by the Division directing the R.M.A. who had been named as the statutory auditor to make an on the spot audit of disaster claims immediately any work was completed.

In addition the processing of claims where Federal Aid was involved was expedited by

the work performed by the R.M.A. and the State Treasurer's Department, working in conjunction with Federal auditors. Instead of the Federal auditors being required to set up their own audit staff, they accepted the work of the R.M.A's and the State Treasurer's representative in practically every case. There were very few cases where the Federal auditors found it necessary to conduct a field examination. The New Jersey Bond and Budget Laws are rigid about incurring of debt or spending money without appropriation. Yet they were sufficiently flexible to permit local units to cope with what was a major true emergency.

## DEFAULTS

The matters leading up to defaults have been discussed in a previous section of this report, however, the number of defaults were not mentioned. The records indicate that there were something over a hundred defaults in existence January 1, 1935. This number was reduced to less than twenty by April 1st, 1940.

The record indicates that counties and municipalities took prompt and constructive steps to correct the default situation; and the Division record indicates that the last recorded default was cleared of record with the refunding of the indebtedness of the City of Brigantine in 1947, with the approval and consent of the Municipal Finance Commission.

Incidentally there were no defaults in delayed payments of debt during or following the "Disaster" period mentioned in a previous section.

## COOPERATION

The Division has always received full cooperation from the counties and municipalities. Without it, the Board and Division would have been unable to present a record of accomplishments of which I, as Director, am proud to have had some part.

It would be repetitious and space consuming to detail the Division relations with other State Agencies, sufficient to say the "communications" were excellent and cooperation was an accepted procedure. As a matter of course in many instances the Legislatures provided legislation which made it easier for the Division to collaborate with other State Agencies.

## CONCLUSION

In conclusion, I first want to thank the Honorable John A. Kervick for his cooperation in making it possible for me to prepare this report which I hope will be of some interest to students of local finance, and will present an abbreviated history of the financial progress of our municipalities and counties over a period of years.

I also want to thank Mr. Kervick and his predecessors for their complete cooperation and understanding in working with the Division and Board in meeting the many problems which came up.

As Director, I served under several State Treasurers, and their philosophy impressed me. As a Division head, I was expected to know how to run the Division in accordance with the duties imposed in me by statute and in the best interest of the State of New Jersey and the counties and municipalities of New Jersey. It placed the responsibility where it belongs, on the Division and me, and I would hate to see this approach changed.

This story of a small "State Agency" is too long, but 50 years of progress and the word "progress" is used advisedly, because the Department, now the Division, has progressed, and the counties and the municipalities have progressed along with the Division. Thus it has been difficult to compress 50 years of progress and performance in State and local



government in the preceding pages.

As the Author I have only tried to report on many things that have happened in this past half century, 1917-1967, without going into extended detail.

It is hoped that the Division of Local Government and its policies and procedures will be continued in the new "Division of Local Finance" in the new Department of Community Affairs.