

FEDERAL RESERVE BOARD.

Washington, D. C.

December 22, 1914.

Subject: The Purchase of Warrants.

Section 14 of the Federal Reserve Act reads in part as follows:

"Every Federal reserve bank shall have power:

- (b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the Continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board".

For brevity's sake, the expression "warrant" when used in this regulation, shall be construed to mean: "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months", and the expression "municipality" shall be construed to mean: "State, county, district, political subdivision or municipality in the Continental United States, including irrigation, drainage, and reclamation districts".

I. A Federal reserve bank may purchase such warrants as are issued by a "municipality"

- (a) In anticipation of the collection of taxes or in anticipation of the receipt of assured revenues. The taxes or assured revenues, against which such "warrants" have been issued, must be due and payable

on or before the date of maturity of such "warrants". For the purposes of this regulation taxes shall be considered as due and payable on the last day on which they may be paid without penalty.

- (b) As the general obligations of the entire "municipality", it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the "municipality" at large is not directly or ultimately liable.
- (c)
 - 1- Which has been in existence for a period of ten years;
 - 2- Which for a period of ten years previous to the purchase has not defaulted, for a period exceeding fifteen days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it; and
 - 3- Whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

As a definition of the term "net funded indebtedness" as used in I (c) -3, above, and in further explanation of 1(c)-1 and 2, relative to the term of existence of and non-default by the "municipality", the Federal Reserve Board has adopted in substance the definitions and regulations of the Board of Trustees of the Postal Savings System, which, as printed hereunder, an appendix hereto is made a part of these regulations.

- II Except with the approval of the Federal Reserve Board, no Federal reserve bank shall be permitted to purchase and hold an amount in excess of 25 per cent of the total amount of "warrants" outstanding at any time issued in conformity with provisions of Section Fourteen (b) and actually sold by a "municipality".
- III Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal reserve bank in "warrants" shall not exceed at the time of purchase a sum equal to ten per centum of the deposits kept by its member banks with such Federal reserve bank.
- IV Except with the approval of the Federal Reserve Board, the aggregate amount which may be invested at the time of purchase by any Federal reserve bank in "warrants" of any single "municipality" shall be limited to the following percentages of the deposits kept by it's member banks with such Federal reserve bank.

- 5% of such Deposits in "warrants" of a "municipality" of 50,000 population or over;
- 3% of such Deposits in "warrants" of a "municipality" of over 30,000 population but less than 50,000;
- 1% of such Deposits in "warrants" of a "municipality" of over 10,000 population but less than 30,000.

V. "Warrants" of a "municipality" of 10,000 population or less shall be purchased only with the special approval of the Board.

The population of a "municipality" shall be determined by the last Federal or State census. Where it cannot be exactly determined, the Board will give special rulings.

VI. Opinion of recognized Counsel on municipal issues, or of the regularly appointed Counsel of the "municipality" about the legality of the issue shall be secured and approved by Counsel for the Federal Reserve Bank in each case.

VII. This regulation is subject to such modification as the Board may deem proper from time to time.

H. Parker Willis,
Secretary.

Charles S. Hamlin,
Governor.

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DEFINITION OF "NET FUNDED INDEBTEDNESS"

The term "net funded indebtedness" is hereby defined to mean the legal gross indebtedness of the "municipality" (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the "municipality") less the aggregate of the following items:

- (1) The amount of outstanding bonds or other debt obligations made payable from current revenues.

- (2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a "municipality" with public utilities, such as water works, docks, electric plants, transportation facilities, etc.: PROVIDED, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds and for the accumulation of a sinking fund for their redemption.
- (3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in sufficient amounts to insure the payment of interest on the bonds and the redemption thereof: PROVIDED: That such bonds are direct obligations of the "municipality" and included in the gross indebtedness of the "municipality".
- (4) The total of all sinking funds accumulated for the redemption of such gross indebtedness, except sinking funds applicable to bonds just described in (1), (2) and (3) above.

"Warrants" will be construed to comply with that part of paragraph . . .

(c) of this regulation, relative to term of existence and non-default, under the following conditions:

- (1) "Warrants" issued by or in behalf of any "municipality" which was, subsequently to the issuance of such "warrants", consolidated with, or merged into, an existing political division which meets the requirements of these regulations, will be deemed to be the "warrants" of such political division: PROVIDED, That such "warrants" were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such "warrants" general obligations of such assuming political division, and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.
- (2) "Warrants" issued by or in behalf of any "municipality" which was, subsequently to the issuance of such "warrants", wholly succeeded by a newly organized political division, whose term of existence, added to that of such original political division, or of any other po-

litical division so succeeded, is equal to a period of ten years, will be deemed to be "warrants" of such succeeding political division: PROVIDED, That during such period none of such political divisions shall have defaulted for a period exceeding fifteen days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it; AND PROVIDED FURTHER, That such "warrants" were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such "warrants" general obligations of such assuming political division, and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

- (3) "Warrants" issued by or in behalf of any "municipality" which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, pre-existing political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of ten years, will be deemed to be "warrants" of a political division which has been in existence for a period of ten years: PROVIDED, That during such period, none of such original, succeeding, or consolidated political divisions shall have defaulted, for a period exceeding fifteen days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.