

MAINE STATE LEGISLATURE

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July 25, 1941

George E. Hill, Chairman
Belmont A. Smith, Member
William D. Hayes, Member
Emergency Municipal Finance Board
Augusta, Maine

Gentlemen:

In reply to query of Mr. Hayes in his memorandum of July 24th, concerning the subject of current expense, I beg to answer as follows:

1. What is the status of state taxes assessed prior to December 23, 1937?

Answer: Although the State has a legal right which makes it possible for it to treat these taxes as a debt requiring immediate payment, such an attitude would be unwise. These taxes should not be treated as current expenses but as preferred debts.

2. Status of interest on the above taxes?

Answer: Inasmuch as the interest can be added to the principal and the whole amount enforced at the discretion of the State, this interest also can be treated as a part of a past debt although if the financial situation of the City is such that the interest can be taken care of it certainly should be treated as a current expense.

3. Status of principal of bonds issued prior to December 23, 1937 having current maturity dates?

Answer: The bonds are a debt for a past consideration. The current maturity dates are promises to pay a past debt in installments at certain times. This promise is no more pressing than the expressed or implied promise to pay any other debt. But, the nature of the paper issued and recognition of the obligation is of a higher character than interest in the case of a simple note and, of course, is of a higher legal character than the implied promise to pay any current obligation. I believe these current maturity dates should properly be treated as creating current obligations, but they are secondary in moral effect to the obligation to feed the poor, support the schools, police, fire department and the other necessary living expenses of the city.

4. Status of principal of bonds having maturity dates prior to December 23, 1937?

Answer: This is a past obligation and should not be treated as creating a current debt.

5. Status of interest on bonds?

Answer: Here again you have a current obligation second in effect to the immediate cost of operation of the city.

All of the above matters can be treated as current and if the city were solvent they certainly should be so treated but the extent of insolvency gives you a practical rule in deciding to what extent you will regard them as current. The problem is actually an administrative one and not a legal one.

Very truly yours,

FIC H
cc to Belmont Smith
" " William D. Hayes