

Municipal Bonds in Gold Rush San Francisco

by Michael Wehner

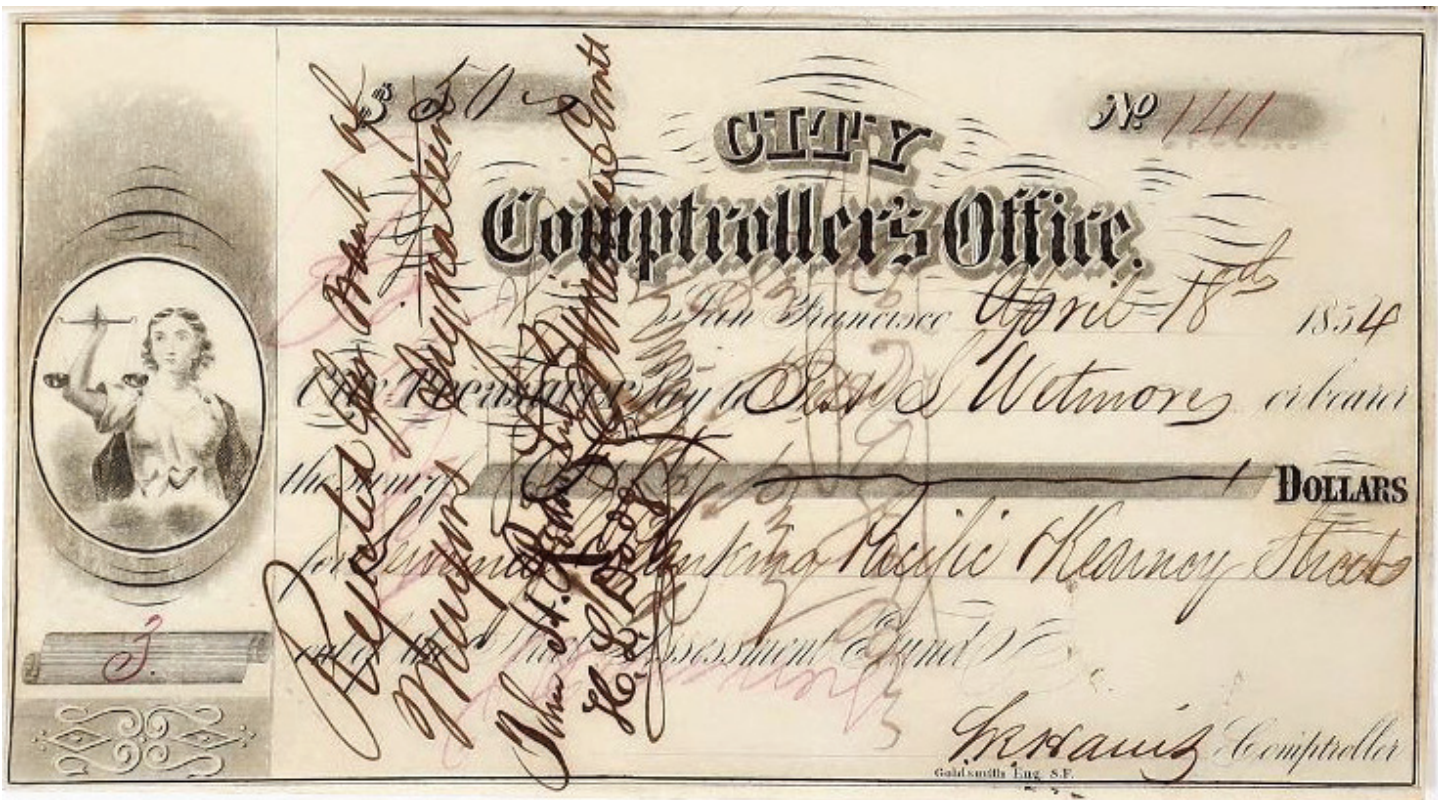
1851

Despite the immense wealth created during the California gold rush, the City of San Francisco was nearly broke in early 1851. Mired in over a million dollars in debt but short on cash, city leaders were forced to use a combination of city warrants and interest-bearing scrip notes to finance the development of the new city's infrastructure. Because of low confidence in the likelihood of a redemption of these financial instruments, they traded at a steep discount at the various gold broker and banking houses.

Warrants were similar to bank checks, except they were drawn on special purpose funds created by the Common Council (the predecessor of the current Board of Supervisors). Signatures from both the city comptroller and the mayor were required to ensure validity of the expenses incurred. One of the major civic expenses of the early gold rush period was the construction of new roads. The first warrant certificate shown here, dated September 4, 1854, was drawn on the Street Assessment Fund for "grading and planking Beale Street." A slightly earlier warrant certificate, dated April 18, 1854, also drawn on the Street Assessment Fund but is of a different design. However, it was unpaid due to "want of the mayor's signature." Surviving warrant certificates are rare, and it is quite possible that additional designs exist for payment from other city funds. The City often would not redeem their warrant certificates for lack of funds or other reasons resulting in numerous lawsuits.



1854 San Francisco City Warrant. Top Center: City Hall. Signed by S.R. Harris, Comptroller and C.K. Garrison, Mayor



1854 San Francisco City Warrant. Left: Allegorical figure. Signed by S.R. Harris, Comptroller. Rejected as the Mayor did not sign it.

San Francisco's interest-bearing scrip certificates apparently were used to pay general expenses, such as the salaries of city employees. Interest was accrued at 3% per month, considered a very favorable rate for the city at the time, as private loans in 1851 could accrue interest at two or three times that rate, depending on the rapidly fluctuating San Francisco economy. Nonetheless, confidence in this debt was low and in January 1851, the *Daily Alta California* reported that "old issue" city scrip was trading at 70 cents on the dollar, while the "new issue" was only valued between 55 and 60 cents on the dollar. In fact, in January 15, 1851, thieves broke into Police Captain Howard's room and opened a chest, taking \$2500 worth of gold but leaving "a large amount of city scrip" with which the good captain had been paid. Apparently, the thieves could not be bothered.

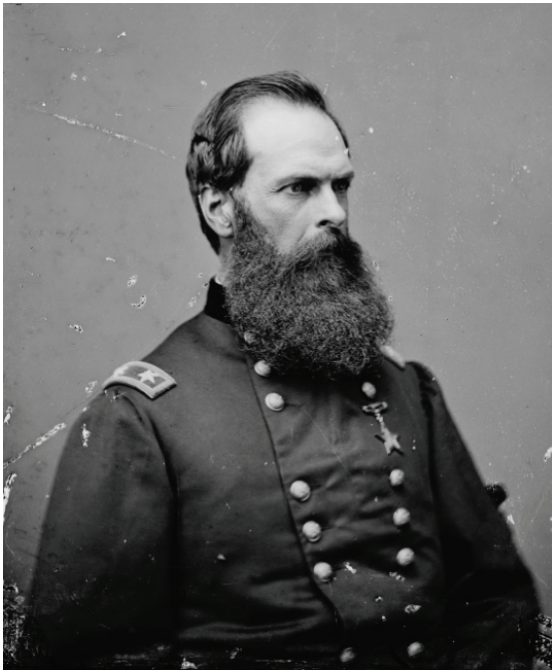
Recognizing that San Francisco's large indebtedness was rapidly increasing at a rate of 36% per year, the state legislature allowed the City to issue a bond with guaranteed regular payments. A May 1, 1851 bill established the "Commissioners of the Funded Debt" to both administer the bond and to manage the City's assets. The first commission included Mayor John W. Geary Judge P.A. Morse and the bankers William Hooper, Drury J. Tallant and James King of William. Their first bond issue was named "The City Stock of San Francisco." Signed by all five commissioners, the bond promised to pay 10% interest per year for 20 years. Payment coupons could be redeemed twice a year on the first days of May and November. The principal investment would be returned on May 1, 1871. For the \$100 bond pictured here, the coupons redemption value was \$5. If kept to maturity, the investor would receive 40 interest payments plus the initial investment or \$300 in total.



\$100 certificate of The City Stock of San Francisco, 1851. Vignette of a port scene with a building, tall ships and merchandise. Steam ship in the background. Cancelled signatures of P.A. Morse, D. J. Tallant, Wm. Hooper, Jno. W. Geary and James King of Wm.

The commissioners were important early San Francisco citizens. John W. Geary was its first mayor and last *alcalde*, the Spanish equivalent, serving those roles from August 1, 1849 to May 4, 1851. He continued to serve on the Commission of the Funded Debt until November 1852 when he left San Francisco after his wife passed away. Later he would be appointed as the 3rd

Territorial Governor of Kansas and elected the 18th Governor of Pennsylvania, his native state. He served as a Lieutenant Colonel in the Mexican War and later as a Brigadier General in the Civil War, seeing action at Gettysburg. Geary Street, a major thoroughfare in San Francisco, is named after him.



General John W. Geary, 1st Mayor of San Francisco.

Image credit: US Library of Congress, image cwpbh.00869

Judge P.A. Morse served as President of the Commission of the Funded Debt until September 1854. At the time of his appointment, he was in private law practice with Thomas Hasting but had been the Chief Justice of the Superior Court of the City of San Francisco until November 1850. News article referred to him as Judge Morse nonetheless.

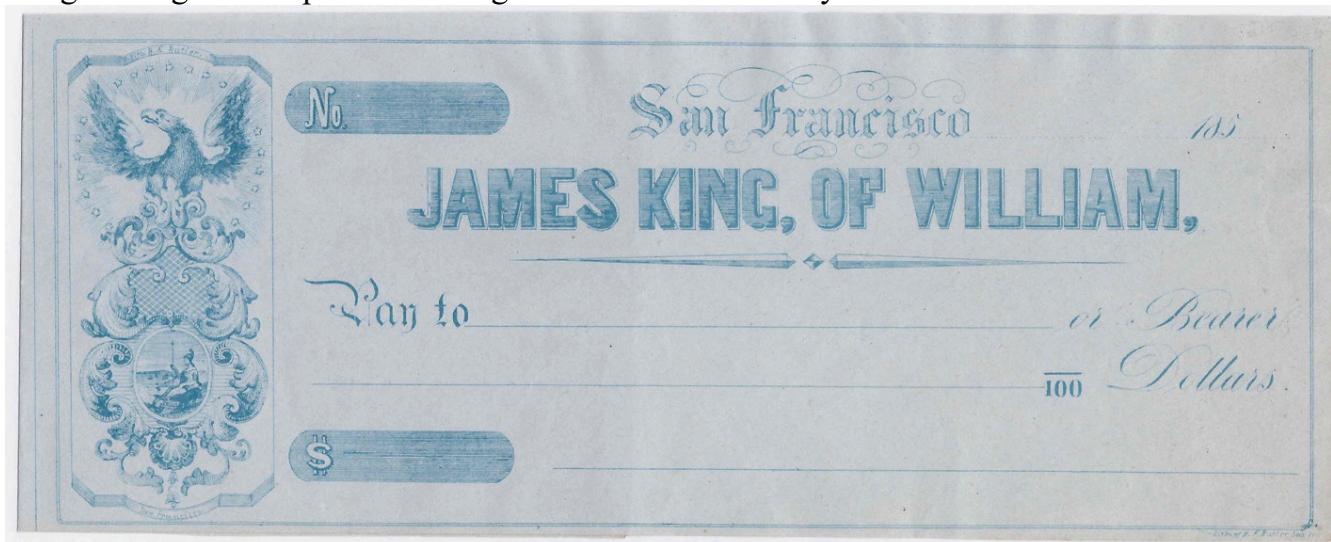
William Hooper sailed from Boston to Hawaii in 1833 to establish its first sugar plantation. In 1848, he arrived with his wife in San Francisco, became a successful merchant and helped establish the Chamber of Commerce. He served on the Commission of the Funded Debt until 1870, holding the position of Secretary for most of his term.

Drury J. Tallant arrived in San Francisco in July 1849 and opened a bank in February 1850. In 1851, he partnered with Judge John W. Wilde to form the banking house of Tallant & Wilde. Their successful bank survived the major financial crisis of 1855 and surviving Bills of Exchange and bank checks are rare but collectible. Becoming Tallant and Company after Wilde's passing in 1863, the bank was absorbed by the Crocker-Woolworth National Bank in 1898. Tallant served as President of the Commission of Funded Debt until at least 1856.



1853 duplicate bill of exchange of Tallant & Wilde

James King of William came to the California gold fields in late 1848. He was a successful banker in 1851 but is more commonly remembered as the journalist whose assassination was the spark that started the 2nd Committee of Vigilance in 1856. Numismatists also remember him for commissioning August Humbert in 1851 to assay the private gold coins of Baldwin, Schulz and Dubosq. As they were found to be substantially underweight, brokers, including King, then bought these coins up at significant discount to be recoined by Humbert into octagonal \$50 “slugs” at significant profit resulting in their current scarcity.

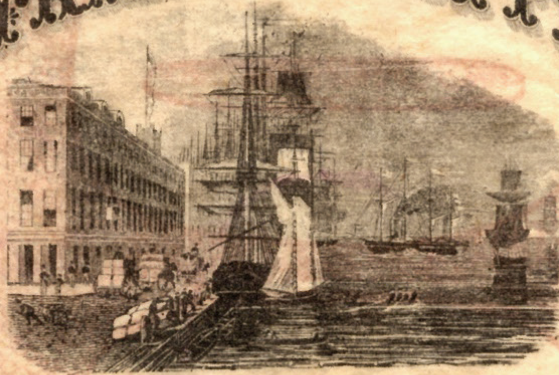


A blank check from the banking house of James King of William

Finding that his business obligations were pressing, King resigned from the Commission of Funded Debt in October 1851. He was replaced by Col. Beverly C. Sanders (aka Saunders) of the banking firm of Sanders and Brenham. Sanders served on the commission until August 1853. He also was president of the Chamber of Commerce, the Collector of the Port and was associated with a number of private business ventures. Later issues of the City Stock, such as this \$1000 certificate have Sanders' signature instead of King's.

No. 2846 THE SAN FRANCISCO CITY STOCK No. 2846

1000



1000

In conformity with an Act to authorize the funding of the floating debt of the CITY OF SAN FRANCISCO, and to provide for the payment of the same, passed by the People of the State of California represented in Senate and Assembly and approved May 1st 1851. The Commissioners of the Funded Debt of the City of San Francisco appointed by the said Act do hereby Certify that the said City of San Francisco owes to C. S. West or to the holder hereof One Thousand Dollars, bearing an interest of Ten per Cent per annum payable half yearly at their Office in said City on the first days of November and May, upon the surrender of the annexed Coupons, and that the principal sum is redeemable at the same place on the first day of May, One Thousand Eight Hundred and Seventy One.

In witness whereof the said Commissioners have set their hands to these presents and their President and Secretary have signed the annexed Coupons, as of the first day of May in the year of our Lord One Thousand Eight Hundred and Fifty One.

Redeemed

J. A. Moore

D. J. Tallant

W. M. Surph

M. W. Geary

Samuel C. Sanborn

Commissioners of the Funded Debt of the City of San Francisco.

Lith. of B. E. Butler San Francisco.

\$1000 certificate of The City Stock of San Francisco, 1851. Vignette of a port scene with a building, tall ships and merchandise. Steam ship in the background. Signatures of P.A. Morse, D. J. Tallant, Wm. Hooper, Jno. W. Geary and Beverly Sanders.

In addition to managing the sale of the City Stock, the Commissioners of the Funded Debt were authorized to manage the sale of city assets. Part of the May 1, 1851 state legislature act that authorized the bonds, also transferred ownership of San Francisco “water lots” to the City under the proviso that a quarter of the sale prices be returned to the state. These water lots were in the shallows along the coastline that later would be filled in and make up a large part of today’s downtown. Early city maps show existing city blocks and streets and those yet to be built, both on land and underwater. The Commissioners sold these water lots and other lots with unpaid property tax at public auctions in Portsmouth Square throughout the early 1850s to buy out the 3% scrip and to pay the coupons on the 10% stock. However, as titles to these properties were often contested, realized auction prices were very low. Eventually the courts recognized the titles and huge profits were made by speculators, including some of the commissioners. Despite the resulting calls to abolish the Commission of Funded Debt, it remained in place until 1891.

Finally, as the 3% scrip could be used at par to buy this City owned land as well as purchase the more secure 10% city stock, the value of the scrip on the trading markets increased to 85 to 90 cents on the dollar by October 1851. However, it is unknown if any 3% scrip notes have survived. It seems likely that all were eventually redeemed.¹

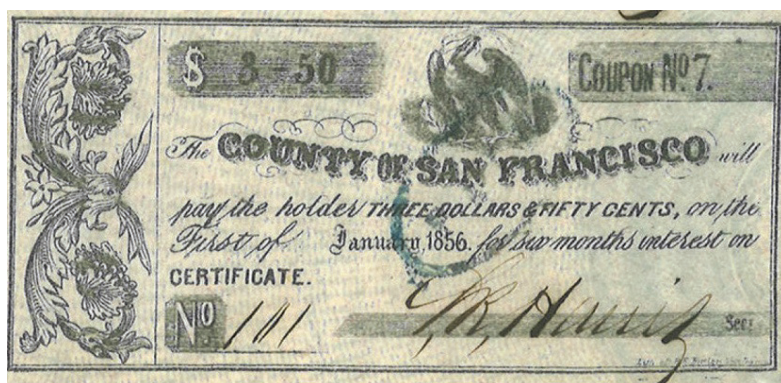
1852

An Act of the State Legislature established 18 counties in California, including San Francisco County on February 18, 1850. The City of San Francisco was incorporated two months later by a separate Act on April 16, 1850 as a relatively small area within the County. Hence, in 1852 the City and County of San Francisco were separate entities with separate government offices. On May 4 of the year, the State Legislature authorized the County to pay its debts by issuing a 10 year bond not to exceed \$400,000 paying 7% per year interest. The Act specifically states that those who could prove the County was indebted to them could be paid with these bond certificates. At the time, the total county debt was estimated to be about \$300,000, \$120,000 of which was in the form of 3% per month scrip. The Act specifically established Steven R. Harris, Frederick D. Kohler and Otto Frank as the County’s Commissioners of Funded Debt.

¹ Note that the 2007 John J. Ford Jr. sale had several unissued San Francisco scrip notes with various vignettes in denominations of \$10, \$20 and \$50. However, their purpose remains unclear as all known examples are unused.



\$100 Bond of the County of San Francisco, 1852. At center, a mythical griffin pulls the allegorical figure, Moneta, in a cart. George Washington is depicted on the lower left. Signatures of F.D. Kohler, S.R. Harris and O. H. Frank.



Put coupon here

\$3.50 coupon from a Bond of the County of San Francisco featuring a vignette of an eagle. Signed by Steven R. Harris, M.D.

The County Commissioners of Funded Debt were also prominent San Francisco citizens of the day. Frederick D. Kohler came to California from New York in 1849 and opened an assay office

with David C. Broderick. In 1850, he became the official State Assayer until the Federal government named its own. He was also San Francisco's first Fire Chief and County Recorder. Only a few ingots from his tenure as state assayer survive.



A \$ 41.68 gold ingot issued by Frederick D. Kohler in 1850. Image credit: National Museum of American History, <https://americanhistory.si.edu>

Steven R. Harris was a doctor in private practice in San Francisco who was occasionally politically active. He was the Mayor of San Francisco at the time of his appointment as a County Commissioner of Funded Debt until November 9, 1852 and hence was working for both local governments. As the Commission's secretary, he signed all of the bond's redemption coupons.

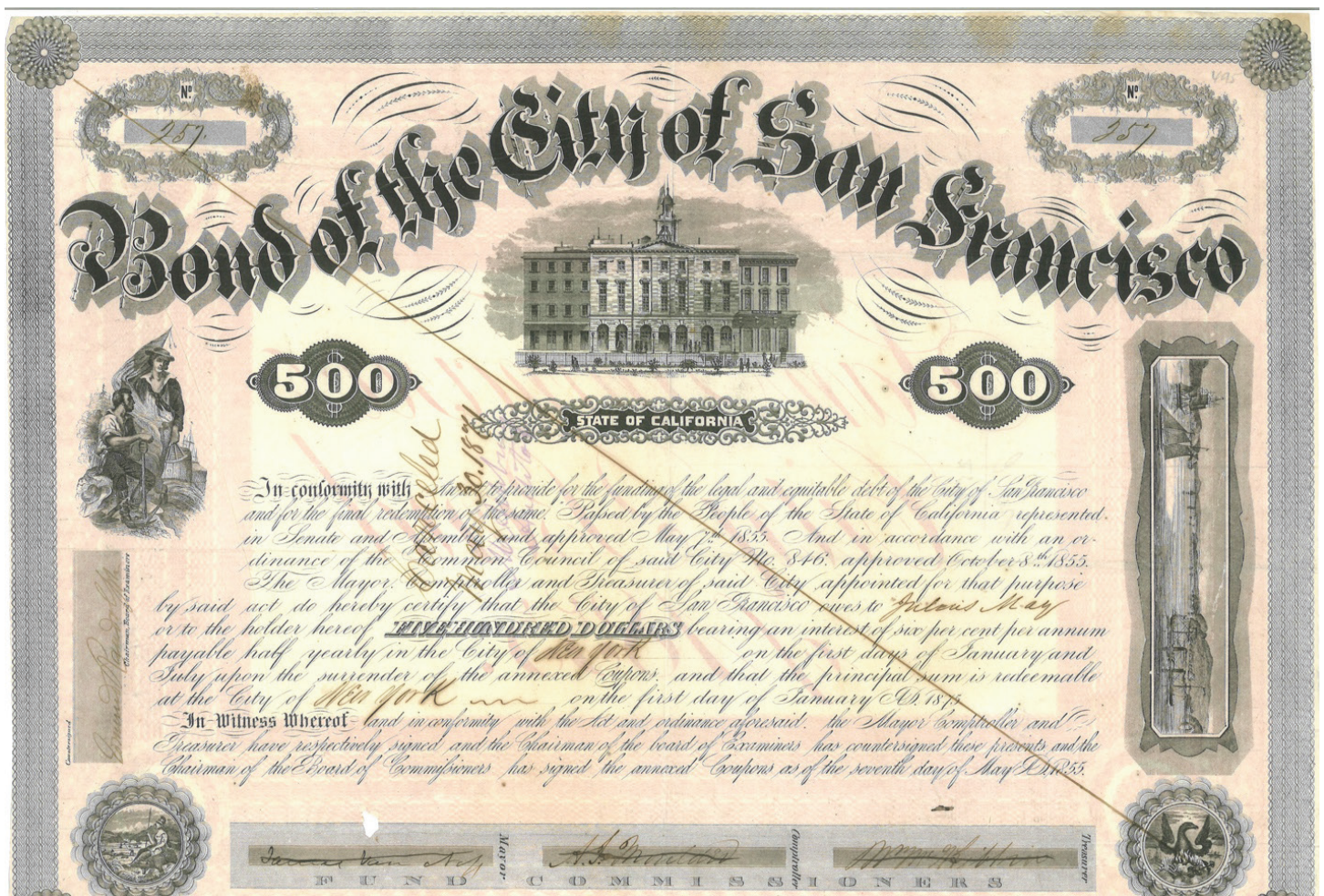


Steven R. Harris, M.D., 3rd Mayor of San Francisco in 1852. Image credit: Soulé et al. (1855)

On July 9, 1850, Otto Frank was appointed as Consul to the Kingdom of Hanover as the last official act of President Zachary Taylor on the day he died. He served in that role until December 19, 1866 when President Andrew Johnson rescinded his credentials as Hanover had become part of the Kingdom of Prussia. As a citizen of Hanover, rather than of the United States, his appointment as a County Commissioner of the Funded Debt illustrates how multinational early California was.

1855

On May 7, 1855, the California State Legislature authorized the City to issue a 20-year bond yielding 6% per year interest to pay its funded debt. The funding act also specified that a 3-member Board of Examiners, who were not members of the City government, be appointed to "examine all accounts and claims against the City" with each member putting up \$50,000 collateral. Edmund Randolph was an attorney and the board chairman. Also on this board were Louis McLane, Jr., the first general manager and eventual company president for Wells Fargo in San Francisco, and George W.P. Bissel a partner in Alsop & Company, a San Francisco merchant firm that also provided banking services. However, unlike the earlier bonds, these individuals in charge of determining the debt did not actually sign the certificates. Rather, they were signed by a Board of Fund Commissioners composed of the Mayor, Comptroller and Treasurer, who were charged with administering the bonds.



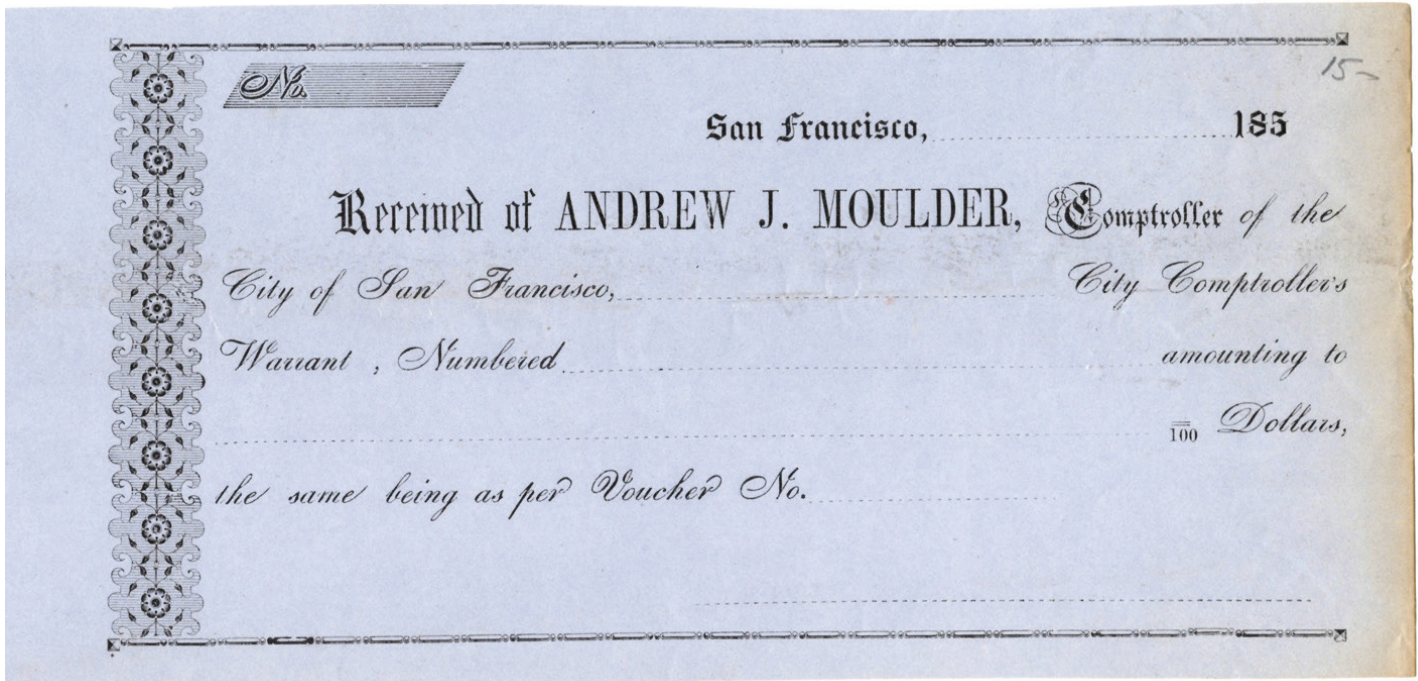
\$500 Bond of the City of San Francisco, 1855. At center, City Hall, formerly the Jenny Lind Theatre. At left a sailor with an anchor and a mining engineer with a surveying instrument. At right, a view looking east from the Golden Gate with various ships. At bottom left, the State Seal of California. At bottom right, a phoenix, from the seal of San Francisco at the time. Signatures of James Van Ness, A.J. Moulder and Wm. McKibben.



The reverse of the 1855 Bond of the City of San Francisco.

James Van Ness was mayor of San Francisco from July 1855 to July 1856. It was during his term that the 2nd Committee of Vigilance was formed and took control of the City. He was unable to stop them from lynching Charles Cora and James Casey, the assassins of James King of William. He left San Francisco in 1860. Despite his ineffectiveness, Van Ness Avenue, a main north-south thoroughfare through San Francisco, is named after him.

Andrew .J. Moulder went to the California gold fields in spring of 1850. In May 1855 he was elected City Comptroller. In the following year he became the State Superintendent of Schools, a position he held until 1862. While in that position, he advocated for the creation of the University of California (in Berkeley) and was one of its first Regents. The receipt shown here with his name would have been issued upon redemption of a City Warrant.



Unused voucher receipt of City Comptroller Andrew J. Moulder for a redemption payment of a City Warrant.

William McKibben was elected City Treasurer in May 1855. Afterwards he formed the Eureka Iron Works in partnership with his brother Thomas. In 1857, he exhibited a model iron bridge and railings and was awarded a diploma at the first Mechanics' Institute Industrial Fair. He later became the Sheriff of San Francisco in 1874 and 1875.

1858

The violent actions of and takeover of the city by the 2nd Committee of Vigilance in May 1856 were in part due to the widespread corruption in San Francisco's city government. The County government was smaller and less corrupted. Partly in response to such corruption but also to reduce the expense of the two redundant government bureaucracy, an Act of the State Legislature passed on April 19, 1856 just prior to the vigilante uprising to repeal previous charters, redraw the boundaries and consolidate the City and County of San Francisco. San Mateo County was created from the remaining areas south of Lake Merced. The act specifically states that the debts remaining from the 1851 and 1855 City bonds and the 1852 County bond were assigned to the consolidated City and County of San Francisco. On April 20, 1858, the state legislature authorized San Francisco to issue a 30-year bond for an unspecified amount yielding 6% per year interest. This Act details that the funds raised were to purchase the higher yielding City Stock of 1851 thus reducing overall liability. It also specifically named George J. Whelan, Thomas J. Poulterer, Fletcher M. Haight, Terence Foley, and James C. Cary as the Board of Examiners. The roles of fund commissioner were assigned to the President of the Board of Supervisors (i.e. the Mayor), the Treasurer and the Auditor who signatures appear on the 1858 bond certificates.



\$1000 bond of the City and County of San Francisco, 1858. At center, City Hall, formerly the Jenny Lind Theatre. Bottom left, a phoenix. Signatures of E.W. Burr, Wm. Tillinghast, E. Mickle.

Edwin Willard Burr was President of the Board of Supervisors, the title given to the former position of Mayor by the 1856 consolidation act. He and the other signatories were all members of the “People’s Party”, the party put in place by the 1856 Vigilantes after they disbanded. However, there were objections to Burr’s nomination voiced in the *Daily Alta California* as he apparently did not pay his taxes. A letter to the editor reads: “For this malignity of disposition and interference on the part of Burr, and the fact of his being a tax delinquent in \$3000 to this city, I am going to vote and work against the now unworthy President Burr. Signed, A Vigilante.”

William Tillinghast was elected as the City and County treasurer and Etting Mickle as the City and County auditor. In 1860, they were on the Board as President and Secretary respectively of the newly founded Spring Valley Water Works. This private company held a virtual monopoly on the supply and distribution of water in San Francisco until it was eventually acquired by the City and County in 1930 as part of the Hetch Hetchy project. Clearly, the Vigilantes did not end San Francisco municipal corruption.

Conclusion

The transformation of the sleepy Mexican village of Yerba Buena to the Gold Rush boomtown of San Francisco required that the City’s infrastructure be built almost entirely from scratch. Without an established tax base, the major investments required to build a new city required substantial borrowing. At the beginning, a haphazard system of outstanding warrants and high

interest scrip led to a rapid growth of the municipal debt. Control of California city and county debts was in large part exercised by the State Legislature, which authorized general bond issues in 1851, 1852, 1855 and 1858. Such warrants, scrips and bonds from cities and counties throughout California were actively traded by numerous gold dust brokers and bankers in San Francisco with prices varying greatly, particularly in the early 1850s.

The Commissioners of the Funded Debt were authorized to manage San Francisco debt both by managing the state authorized bonds and selling publicly owned assets. In the aftermarket of bond issues, they were authorized to solicit bids to buy back the debt held in these bonds as funds permitted. The 10% City Stock of 1851 raised the most funds of these four early bond issues with perhaps about \$1,500,000 raised. While the lower interest 1855 City and the 1858 City and County bonds were issued in part to help buy back some of the earlier higher interest debt, it was not particularly successful as the outstanding City Stock debt was \$1,456,400 in 1858 and reduced to only \$1,332,500 in 1864 since 10% was considered a good return. Information on the success of ten-year 1852 County bond issue is limited. In 1858, after consolidation of the City and County, the remaining debt from this issue was only \$1,900 and is not reported afterwards. The 1855 City Bond was also relatively small with only \$329,000 raised. However, the 1858 City and County Bond raised almost \$1,200,000.

These four general purpose bonds, the warrants and 3% City Scrip described here were not the only funded debts incurred by San Francisco in the 1850s. An 1854 School Bond issue raised \$60,000 as a 10-year investment yielding 7% interest per year. An issuance of a Fire Department Bond in the same year raised \$200,000 paying 10% interest per year, also over a 10-year period. Unlike the general funded debt bonds, the school and fire bonds were authorized by city ordinances. They were actively traded in the private aftermarket but the debts were paid in full rather than repurchased by the City. While certificates were almost certainly issued for these bonds, it is unclear whether any have survived.

The rapid influx of wealth from gold mining in the Sierra foothills made San Francisco rich, violent and corrupt in the 1850s. Fortunes were made and lost as speculators gambled on just about anything from food stuffs, to mining supplies, to real estate and everything in between. Murder was rampant and vigilantes controlled San Francisco not once but twice during this period. Despite such chaos, a great city was built and these four bond certificates provide some insight into the process.

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