

SOME NOTES ON MUNICIPAL FINANCE

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AMONG the many problems confronting a municipality there is probably none which concerns its citizens more, and which so vitally affects its credit and future, as that of sound Finance. This statement will be best appreciated when the large increases in our municipal debts, in our yearly borrowings and in our tax levies for interest and repayment of principal on these debts are considered.

In view of the disturbed financial conditions the world over, the important obligations of our municipalities, and the necessity for further heavy borrowings from time to time, it is believed that any practical suggestion which will have a steadying influence is worthy of attention, and without further preliminaries I will proceed to discuss three features of municipal finance:—(1) method of repayment of permanent loans, (2) rate of interest which loans should carry, and (3) administration of sinking funds.

1. METHOD OF REPAYMENT OF PERMANENT LOANS.

The three recognized methods of repaying moneys borrowed by municipalities for a long term of years are, (a) Sinking Fund, (b) Annuity Instalment, (c) Serial Instalment.

It is submitted that municipalities should, in practically every instance, adopt the instalment method, either annuity or serial, instead of the sinking fund method, chiefly because of the heavy financial loss involved in the sinking fund method. Many of the smaller Ontario municipalities issue only instalment bonds, and in this they have shown greater wisdom than our important cities, most of which still persist in obtaining their loans by the issue of long-term Sinking Fund Bonds.

Let us consider the essentials of each method.

(a) *Sinking Fund Method.* Bonds are issued payable at the end of a certain term,—5 to 40 years, according to the purpose for which the loan is required. Interest is payable half-yearly or yearly throughout the whole term on the entire amount of the debt, and