

Some Notes on Municipal Debentures—II.

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The per capita assessments for the municipalities in the provinces west of Ontario are unduly high, while those for the cities and towns in the Maritime Provinces are quite conservative.

(c) Assets of the Municipality.—These are divided into revenue-producing and non-revenue-producing. Sometimes the non-revenue-producing assets fail to receive sufficient recognition. They may include the City Hall, Courthouse, Library, Firehalls, Schools, etc., which if the municipality did not own would necessitate heavy annual rentals. Other assets, such as gas and water-works, electric lighting and power, street railways, etc., should produce sufficient revenue to pay operating charges as well as interest and sinking fund on the debt contracted for their acquisition. Care should be exercised in determining the net operations of each of such enterprises. In many municipalities the value of property owned exceeds the total debt. In practically every well regulated municipality its assets should approximate very closely to its net debt. But let us not attach too much importance to this ratio, and rather weigh carefully the nature of the assets, and the nature of the obligations.

(d) Population. This is an indirect asset. The population according to the last Government census, may be taken, or if that be too old, the census obtained through the local authorities may be accepted. Estimated population should be regarded with caution. In the West especially, where many things are measured by "bigness" or "material growth," figures must be scrutinized. As a general principle the debentures of the more populous communities command a higher price and have a wider market than those of smaller municipalities. A community whose population is stationary or retrograding is not favorably regarded, unless there are some special reasons attached to such condition.

(e) Gross Debt.—A comparison of the gross debt (less sinking fund) with the population and with the assessment is helpful in determining the financial position. Speaking generally, the aggregate gross debt (including debts incurred for local improvements and schools) should not exceed 20 per cent. of the assessed valuation for taxation. Nor should it be greater per capita than the following:—

\$100 for places with a population of less than 2,000.
\$150 for places with a population of 2,000 and less than 10,000.
\$200 for places with a population of 10,000 and over.

Practically all the well managed municipalities come well within these limitations. While it is most important that borrowings should be within safe and well defined limitations, there are difficulties in the way of making any arbitrary or general rule. Let us apply these tests to the seventeen Ontario municipalities previously quoted.

	Assessment, Total	Population	Gross Debt	Gross Debt Per Capita
Windsor	22,032,598	22,050	1,555,857	7.78
Ottawa	101,345,326	101,180	8,808,499	9.87
Niagara Falls	8,617,880	11,340	813,564	9.72
Brantford	21,248,310	26,389	2,096,032	10.79
Brockville	5,084,150	9,641	687,460	11.71
Hamilton	78,268,133	101,344	8,736,048	11.86
Toronto	565,132,579	500,000	65,325,334	12.131
Peterboro	12,909,494	20,150	1,535,320	12.76
Kingston	12,457,974	21,261	1,534,951	12.72
Chatham	7,547,319	12,465	912,125	12.73
Owen Sound	6,511,400	12,385	817,937	12.66
St. Thomas	9,905,317	16,794	1,321,811	12.93
Galt	8,406,591	12,016	1,120,261	12.93
London	35,071,220	56,358	5,919,568	16.05
Bellefleur	6,075,677	11,568	946,498	16.80
Berlin	11,182,210	19,056	2,055,508	18.105
Guelph	8,856,783	16,799	1,474,966	20.104

—Gross Debt.—Total Debt (including debt for local improvement debt)—total accumulated sinking fund.

The municipalities in Ontario and the Eastern provinces would, with few exceptions, all qualify under these rules, but this cannot be said of the municipalities in the provinces west of Ontario.

In considering the gross debt in the way mentioned, the constitution of the debt should be enquired into. In some municipalities important debts have been incurred in the acquisition of gas plants, water-works, electric light and power plants, street railways and other revenue-producing assets. While in these cases, even if the debt does exceed the limits stipulated, the municipality should not be wholly condemned if these utilities are producing a revenue over and above interest, sinking fund and depreciation charges. The limits, however, are liberal under ordinary conditions.

(f) Net Debt.—The net debt is the gross debt less those debts which have been incurred for self-sustaining works and that part of the accumulated sinking fund other than that which applies to debts incurred for self-sustaining works. For example, in the statement of the City of Toronto, the net and gross debts are found as follows:—

Total debt (including local improvement debt)	\$80,634,084
Less total accumulated sinking fund	15,038,750
Gross debt (less sinking fund)	\$65,595,334
To obtain net debt deduct:—	
Waterworks debt, \$13,911,497	
less sinking fund \$1,582,751	\$12,028,746
Electric light debt \$6,650,000, less sinking fund \$353,748	6,296,252
Civic Street Railway debt, \$1,336,175, less sinking fund \$129,367	1,256,807
Street Railway—Pavement \$2,810,940, less sinking fund \$767,155	2,043,785
	\$21,625,587

Net debt (including Local Improvement Debt) \$43,969,747

All of the foregoing deductions represent debts which are revenue-producing, that is to say, it is presumed that the surplus revenue after expenses of operation are deducted from such civic enterprises as water-works, electric light, etc., will be sufficient, from year to year, to provide interest on their debt and the sinking fund to retire the debt when the debentures mature.

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—Net Debt.—Gross Debt—debentures issued for self-sustaining works—accumulated sinking fund on such debentures.

(g) Sinking Fund.—Is the Sinking Fund sufficient and well managed? Where debentures are payable at the end of a term of years, 10, 20, 30, etc., years, it is, of course, essential to establish and build up a fund which will be sufficient to retire the debentures at their maturity. In some instances exceedingly crude methods have been adopted by municipalities in the operation and administration of their sinking funds. It would be extremely desirable if municipalities were required to set forth annually a complete exhibit of the accumulated sinking fund held against each debt outstanding, and a detailed statement as to how the moneys had been invested and the rate of interest which the investments carried, etc. In this connection considerable thought is being given by certain municipalities to the issuing of debentures repayable by annual instalments, instead of at the end of a term of years. This method, which repays the debt by a definite amount each year, obviates the necessity of establishing a Sinking Fund, tends in many respects to greatly simplify municipal financing and in a much less costly way of repaying the loan than by the sinking fund method.

(h) Municipality's Assets.—It will be found that most municipalities have assets equal to the value of their net debts. Many of the best managed have assets even approximating their gross debts in value. Under no circumstances should they fall below the former.

(i) Location, etc.—For the future welfare of the place, it is important that it should be advantageously situated—surrounded by a good agricultural district and not dependent upon one or two industries.

2.—Validity.
All debentures are purchased from the municipality subject to the legality of all the steps leading up to and including their issue. These should be investigated and passed upon by competent legal authority. Application may be made to the Ontario Railway and Municipal Board for the validation of by-laws and issues of debentures. If the Board is satisfied that all the essential proceedings have been regular, it issues its certificate and endorses each debenture as follows:—"In pursuance of the Municipal Act, The Ontario Railway and Municipal Board hereby certifies that the within debenture is valid and binding and that its validity is not open to be questioned in any court on any ground whatever."

Dated.....
Chairman.

This endorsement on a debenture places its validity beyond question.

3.—Municipality's Credit or Good Faith.

The past record of the municipality in the matter of meeting its financial obligations should be above suspicion. If it should have happened that at some time in the past it has defaulted (of which there are very few cases on record) then the method pursued at the time of default should be investigated to ascertain whether it commends itself as being fair and honorable. Other general consideration will also have weight, such as personal knowledge of the municipality, the character and efficiency of its permanent officers, record of management, extent and record of public ownership enterprises street railways, telephones, electric light and power, etc.). Municipalities that are anxious to own all public utilities are usually fairly heavily in debt. The result is that in the large financial centres, the debentures of such places are somewhat discriminated against, because it not infrequently happens that this principle leads to very heavy borrowings.

Constitution of Municipality.

The municipalities of the province of Ontario are constituted as follows: First the township. This is a rural division of considerable area, and is usually defined in the original survey.

The second division is the village, which is erected in some section of the township, which has a population of at least 750; the third division, the town, is a development of the village—it must have a population of not less than 2,000. Finally, we have the city, which becomes such when the community can boast of a population of over 10,000. In the settled parts of the province, the various municipalities are grouped into large municipal divisions—that is counties. Cities, except for judicial purposes are usually separate from the county. Towns of at least 5,000 persons have the same right as cities to be separated from the county should they consider such to be desirable. The thinly settled and unorganized portions of the provinces are divided into "territorial districts," for example Algoma District and Rainy River District. These, however, may contain cities, towns, villages and townships. While the Ontario Municipal Act regulates the operation and conduct of all the municipalities, yet enlarged powers have been granted to certain municipalities through special Acts of the Legislature.

In order to meet the expenses of the municipality and the debt falling due or incurred, including principal and interest under debentures, a direct tax is imposed. Each year all real property is assessed. There is, in addition, a business assessment and an income assessment. There is no set rule for determining the assessed value; speaking broadly, real property is assessed at about from 50 to 75 per cent. of its actual value. The whole of these assessments represent the year's "rateable property," upon which the Council fixes a rate of taxation, sufficient to yield revenue for the purposes referred to. In Ontario, as

previously stated, the levy cannot exceed 2 per cent., i.e., 20 mills on the assessed value, exclusive of school and local improvement rates. If it should happen that the annual requirements for expenses and debt charges exceed the money raised through the 2 per cent. tax rate, the council is required to levy such further rates as may be necessary to cover the obligations up to that date. It cannot, however, contract further debts until the annual rate required to be levied is reduced to the legal limit. This is a healthy check on any attempt to incur unwarrantable expenditure or debt.

Each municipality has the power, under certain well defined regulations, to borrow money by the sale of its debentures, and these may be issued in any one of the following manners:—

(1) Payable at the end of a fixed term of years, with interest in the meantime, payable yearly or half-yearly. These are known as sinking fund or straight term debentures.

(2) Payable in equal annual instalments, the instalments of principal being of such amounts that with the interest, the aggregate amount for both principal and interest in each year, is the same. These are known as annuity debentures.

The more important municipalities issue according to the sinking fund plan. Many investors are partial to this method because they prefer to have their investments run for a reasonably long and definite period; moreover, it is the method which the British and American markets are accustomed to, and municipalities have found it desirable to pay attention to those details which will assist in the best marketing of their securities. The annuity method is regarded as being best adopted for the smaller municipalities, inasmuch as through the partial payment of principal each year the debt is being systematically liquidated, and, consequently, the trouble and work of sustaining a sinking fund is eliminated.

Much might be said as to the relative merits of the two systems in so far as they relate to the municipality, but it is sufficient here to remark that while the investor is partial to the straight term or sinking fund method, it is much more costly for the municipality than the annuity. The sinking fund method also presents many difficulties and temptations to municipal councils and officers. The opinion is entertained that the time is fast approaching when the marked advantages to municipalities in issuing instalment or serial bonds, in preference to sinking fund ones, will be more thoroughly recognized and that we shall see more of the important cities and towns gradually eliminate, except in special instances, the issuing of sinking fund bonds.

In Ontario, debentures must be issued within two years from the passing of the authorizing by-law, so that the tax rate which is levied in each year during their currency for interest and repayment of principal begins from their issue, and those who help to pass the by-laws must thus contribute towards their payment. The Municipal Act provides that the annual rate to be levied for the payment of principal and interest of every debenture debt, must be uniform throughout the currency of the debentures. The rate must be sufficient in the case of sinking fund or straight term debentures to pay the yearly interest and provide such a sum towards maturity. The estimated rate of interest in determining the amount of the annual sinking fund must not exceed 4 per cent. In the case of annuity debentures the levy rate must be sufficient to meet the

annual payment of combined interest and principal. The period for which debentures may be issued is also regulated by the Municipal Act. For example, if the debt is incurred in connection with such undertakings as sewers, gas, waterworks, parks, schools, electric light, heat, power, etc., the term must not exceed 30 years; if for the purchasing road-making machinery, etc., 5 years. Debentures payable within 20 years may be issued for a number of general works. Of course it will be at once recognized that the longer the term of the debenture, the smaller will be the annual rate required to pay the annual principal and interest in respect thereof. There is a consequent temptation to extend the term of repayment as much as possible, so as to pass on to future generations the pleasure of paying for that which we are now enjoying.

The procedures required to be taken by a municipality prior to the issue of debentures, are such as to safeguard the purchaser's interest. Certain money by-laws require to be voted on by the electors; others do not.

Money by-laws which are required to be passed upon by the electors, must, after being read a first and second time by council, be submitted to the vote of the electors (freeholders and certain leaseholders).

The by-laws must then be published at least once a week for three successive weeks, and posted in public places of the municipality, with notice appended of the time and place of voting.

If a majority of those voting do so in favor of the by-laws, they are then passed by council, seal affixed and signed by the head of the municipality and the clerk.

The by-laws are then registered in the registry office, and unless they are moved against within three months after registration, they are absolutely valid and binding on the municipality.

In the case of those money by-laws which do not require to be submitted to the electors, in order to secure the benefits of the validation referred to, notice of registration must be published at least once a week, for three successive weeks and the three months within which they may be moved against run from the registration.

An important further protection to investors is the provision in the Act that if the interest for one year, in the case of sinking fund debentures, or one or more of the debentures, in the case of annuity debentures, has been paid by the municipality, then the by-law and the debentures issued thereunder remaining unpaid shall be valid and binding upon the corporation and shall not be quashed or set aside on any ground whatever.

Default in the payment of principal under municipal debentures is very rare, but it may be interesting to consider what the bondholders remedy is in such a contingency.

Any bondholder whose bond or the interest thereon is in default can sue the municipality, and upon getting judgment, he will put an execution in the sheriff's hands. The sheriff will obtain the assessment rolls prepared by the municipality for collecting the taxes, strike a rate over the whole property of the municipality sufficient to pay the judgment debt, and collect the amount due in the same manner as the tax collector gathers in his taxes.

In the event of some of the levies not being met the sheriff is entitled to levy again and again, until his debt is paid.

The references made in these notes apply almost entirely to the province of Ontario. The securities issued by municipal bodies in that province and in the Maritime Provinces—New Brunswick, Nova Scotia, and Prince Edward Island—have an excellent reputation. In a period of a quarter of a century only two losses have occurred, so far as the writer's knowledge extends, and in both of these cases, no loss in the principal was sustained, but the loss was limited to a re-arrangement of the rate of interest.

The War Day by Day

August 4—England sends ultimatum to Berlin, demanding unconditional observance of Belgian neutrality—Germany rejects ultimatum—German troops begin attack of Liege—President Wilson issues proclamation of neutrality.

August 5—England announces existence of state of war with Germany—President Wilson tenders his good offices to the warring nations.

June 28—Archduke Francis Ferdinand assassinated.

July 23—Austria sends an ultimatum to Serbia.

July 31—Russia orders general mobilization.

August 1—Germany declares war on Russia—French Cabinet orders general mobilization.

August 2—German forces enter Luxembourg—Germany addresses ultimatum to Belgium demanding free passage for her troops.

August 7—Germans enter Liege—French invade southern Alsace.

August 8—Italy reaffirms neutrality.

August 15—Austrians enter Serbia—Japan sends ultimatum to Germany.

August 17—British expeditionary force completes its landing in France—Beginning of a five days' battle in Lorraine, ending in repulse of French across frontier with heavy loss—Beginning of five days' battle between Serbians and Austrians on the Jadar, ending in Austrian rout.

August 20—Germans enter Brussels—Belgian army retreats on Antwerp.

August 23—Germans enter Namur and begin attack on Mons—Austria announces victory over Russians at Krasnik.

August 24—British begin retreat from Mons—Zeppelin drops bombs into Antwerp.

August 25—Munich evacuated by the French.

August 27—Louvain burned by Germans—Japanese blockade Tsing-tau.

August 28—British fleet sinks five German warships off Heligoland.

August 29—Russians defeated in three days' battle near Tannenberg.

September 2—German advance penetrates to Creil, about 30 miles from Paris, and swings eastward—French retreat between Verdun and Rheims driven back—Seat of French Government removed to Bordeaux.

September 3—Russians occupy Lemberg.

September 5—Battle begins south of the Marne and east of Paris in which the German right wing is pushed back, followed by a general retreat.

September 7—Maubeuge taken by the Germans.

September 12—German retreat halts on the Aisne.

September 16—Belgian commission protests to President Wilson against German "atrocities."

September 20—Germans bombard Rheims and injure the famous Cathedral.

September 22—German submarine sinks British cruiser Aboukir, Cressy, and Hogue in the North Sea

—Russians capture Jaroslav and invest Przemyśl.

September 26—British troops from India land at Marseilles.

September 28—Germans begin siege of Antwerp.

October 2—End of week's battle at Augustow in which the Germans are defeated and forced out of Russian territory.

October 5—Belgian Government removed from Antwerp to Ostend.

October 7—Bombardment of Antwerp begins—Japanese seize Caroline Islands.

October 9—Antwerp occupied by the Germans.

October 12—A Boer commando in the Cape Province mutinies.

October 13—Belgian Government transferred from Ostend to Havre.

October 14—Allies occupy Ypres—Battle begins on the Yser.

October 16—Ostend occupied by the Germans.

October 16—British cruiser Hawke sunk by German submarine.

October 18—Belgian army effects junction with Allied left, battle on from Channel coast to Lille.

October 20—English gunboats participate in battle at Newport on Belgian coast.

October 24—Ten days' battle before Warsaw ends in German defeat.

October 27—South African sedition spreads.

Gen. De Wet in revolt—Russians pursue retreating Germans and re-occupy Lodz and Radom.

October 28—Berlin admits retreat from Warsaw and Ivangorod.

October 29—Turkey begins war on Russia by naval attacks on Odessa, Novorossysk, and Theodosia in the Crimea.

October 30—Col. Maritz, rebel leader in Cape Province, beaten and driven out of the colony.

November 1—A squadron of five German cruisers, including the Gneisenau and Scharnhorst, defeat a British squadron off Coronel, on the coast of Chile—Turks bombard Sebastopol.

November 3—German squadron makes a raid to British coast near Yarmouth.

November 4—German cruiser Yorck strikes mine in Jade Bay and sinks—Heavy fighting around Ypres.

November 5—England and France declare war on Turkey—Dardanelles forts bombarded—Russians re-occupy Jaroslav.

November 6—Ting-tau surrenders to the Japanese.

November 7—Russians reach Pleschen in Silesia and enter East Prussia.

November 10—The Emden defeated, and forced ashore at North Keeling Island in Bay of Bengal, by Australian cruiser Sydney.

November 11—Germans capture Dixmude—German submarine sinks British gunboat Niger off Deal.

November 12—Russians occupy Johannisburg in East Prussia—Russians defeated in Viotslavsk.

November 15—Russians defeated at Lipno and Kut-

no—Battle in Flanders attains climax with charge of the Prussian Guard against Ypres.

November 16—The Sheikh-ul-Islam at Constantinople proclaims a Holy War against the Allies—British House of Commons votes a war loan of £225,000,000.

November 19—House of Commons votes a new arm of 1,000,000 men—More than 1,100,000 men already under arms, exclusive of Territorials—Germans pierce Russian centre south of Lodz.

November 26—British battleship Bulwark destroyed by explosion in the Mersey River—Germans break through Russian circle near Lodz.

December 1—German Reichstag votes new credit of five billion marks—King George visits the army in Flanders.

December 2—Austrians take Belgrade by storm—Gen. De Wet captured.

December 3—London War Office announces landing of Australians and New Zealanders in Egypt—Italian premier in Parliament finds no reasons for a change of policy—Serbians turn on Austrians in three days' battle which ends in a notable Serbian victory.

December 6—Germans occupy Lodz.

December 7—French attack to the north of Nancy repulsed.

December 8—The German squadron under Rear-Admiral von Spee is attacked in the South Atlantic off the Falkland Islands by a British fleet under Admiral Sturdee, and the cruisers Scharnhorst, Gneisenau, Leipzig and Nürnberg are sunk—British occupy Bussorah, in Asia Minor.

December 13—British submarine sinks the Turkish battleship Mesoudieh in the Dardanelles.

December 15—Austrians evacuate Belgrade.

December 16—Germans capture bombard Scarborough, Hartlepool, and Whitby on English coast.

December 17—Berlin announces general Russian retreat in Poland—Survivors of Emden captured.

December 18—Egypt proclaimed a British protectorate—Gen. Botha regards Boer rebellion at an end.

December 23—French Chamber votes war credit of eight and a half billion francs.

December 28—French occupy St. Georges near Neu-Cuxhaven—Russians defeat Austrian army at Tuchow near Tarnow—German offensive in Central Poland halted—Italian marines occupy Avlona.

December 29—British naval and aerial raid against port.

January