EXTENDING THE TERM OF THE SINKING FUND.

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City Auditor Frank Harvey of Calgary, Alberta, has evolved a scheme for extending the life of debentures and thus decreasing the annual payments to the sinking fund, which will help city finances and at the same time protect the rights of the bondholders.

During the period of unprecedented prosperity enjoyed by the eastern cities a few years ago local improvements were pushed ahead rapidly and very little thought given to co-ordinating the due date of the debentures with the life of the improvements.

Land purchased for park purposes, for sites of public building, or for the purpose of making street extensions, which might almost have been bonded to perpetuity and other improvements, such as cuts, heavy grades, concrete bridges, etc., etc., having a life of 10 years or more, were bonded for 30 years and other improvements in proportion.

At the time the taxpayers made no objection because their property was increasing in value so fast that the taxes were a negligible quantity. But the present hard times have shown the folly of these transactions.

It is not feasible to increase the life of the bonds themselves, because they are not registered, so that it would be next to impossible at the present time to locate the holders of the bonds, and even if they were located by an etxensive system of advertising in British and American papers, the present interest charges would be much more than that when the bonds were sold, as in many cases these were sold at 4 per cent or 5 per cent, whereas now 7 per cent would be cheap money.

The scheme outlined by Mr. Harvey is to issue new bonds 6 months previous to the expiry of the present bonds. These bonds would run for 10, 15 or 20 years, according to the estimated life of the improvement for which the original bond was issued. Then the original bond would be treated as though the original bond was extended by this additional period. That is to say he would make smaller payments into the sinking fund leaving the amount already paid in to accumulate interest for the balance of the period of the bond.

For safety's sake, Mr. Harvey would not select any bonds to be treated this way unless it had at least 15 years yet to run. He did not anticipate any trouble in raising the amount needed to make up the deficiency between the accumulated sinking fund and the face of the bond which he estimated would be about one-third of the amount of the original bond. The new bond would be secured by the backing of the city and if possible by the provincial government.

For an example of the working of his scheme, Mr. Harvey took a bond for $100,000 having a lifetime of 30 years due in 1942.

The present sinking fund contribution is $1,783.01 per annum. Assuming that this contribution has been kept up, $11,826.65 would now be in the fund which, accumulating at 4 per cent per annum, would on January 1, 1942, be worth $30,153.01. By extending the term for 10 years longer the annual contribution would be reduced to $1,052.35, which, being paid on a 30-year basis, would at 4 per cent per annum amount to in 1942 $41,128.57 making the total amount on hand with which to meet the $100,000 due $71,-281.58. So that it would be necessary to issue new bonds for the balance, $28,712.42.

The new bond would be for 10 years, and would require an annual sinking fund contribution of $2,391.98.

The present saving would be $730.66 per annum for 24 years and the burden would be spread over the taxpayers of 34 years instead of those of 24 years.

The total levies for sinking fund would compare as follows:

24 years at	$25,256.40	
10 years at	$2,391.98	
		$49,176.20
Under original plan:		
24 years at $1,783.01		$42,792.24

Showing levies under suggested plan greater by $6,383.96; but in the meanwhile a great part of the burden is lifted from the taxpayer and future generations will help bear the burdens of the improvements they enjoy.

This plan was submitted to a conference of mayors and