

## TESTING CANADIAN MUNICIPAL DEBENTURES

### Toronto Actuary and Investment Banker Tells How to Analyze the Merits of These Securities

What tests should be applied to determine the merits of a municipal debenture? was among the questions answered by Mr. T. Bradshaw, of Messrs. Ames and Company, addressing the Toronto Insurance Institute.

Mr. Bradshaw, in his thorough manner, dealt with the financial status or credit of the municipality under the following divisions:—(a) Tax rate—This in Ontario is limited to 20 mills on the dollar, exclusive of school tax and tax for local improvements. Speaking generally, a low tax rate is unquestionably preferable to a high one—it implies economy in administration and what generally accompanies this, a low percentage of net debt. A high rate indicates unhealthy management of municipal affairs and a high percentage of net debt. A good test to apply in this connection is to compare the tax rate with the previous annual tax rates of the same municipality, or with the rates of other municipalities of the same class, size and condition. But let us not overlook the fact that the tax rate can be made high or low according as the assessment of a municipality is made upon a low or high basis.

#### Assessed Valuation.

(b) Assessed valuation—By which is meant the value of the real and personal property determined by the assessor as the basis of taxation. It is important to know whether the assessed valuation of property is reasonable, for the amount of a municipality's borrowings should be regulated by a percentage of its assessment. If the assessment be inflated then its borrowings are also likely to be heavy. A consideration of the assessment per capita of population is frequently resorted to as a test of a fair assessment, but in this also care must be exercised, for, as is well known, the assessment per capita generally increases as the population increases. But, as is well known, the assessment per capita does not always follow the course just indicated. It is noticeable that the assessment per capita of municipalities in the eastern provinces is materially lower than that in the western provinces.

#### Assets to be Considered.

(c) Assets of the municipality—These should also be considered in determining the financial status. These are divided into assets that are revenue-producing and those that are not. Those that are not revenue-producing should not be totally unfavorably regarded, inasmuch as they may include city hall, courthouse, library, firehalls, schools, etc., which if the municipality did not own would necessitate it to incur heavy annual rentals. Other assets, such as gas and waterworks, electric lighting and power, street railways, etc., are or should be revenue-producing. 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 debenture debt. In practically every well regulated municipality its assets should approximate very closely to its net debt. But do not attach too much importance to simply the ratio, but rather weigh the nature of the assets and the nature of the obligations.

#### Population and Gross Debt.

(d) Population—This is also regarded as an indirect asset. The population, according to the last government census, or if the census has been taken some years ago, that obtained through the local authorities should 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. It is a generally accepted principle that the larger the population the more highly regarded is the debenture. A community whose population is stationary or retrogressing is not favorably regarded, unless there are some special reasons attached to such condition.

(e) Gross debt—A comparison of the gross debt with the population is helpful in determining the financial position. It has been suggested that a limitation of gross debt of \$200 per each head of population should be imposed upon all municipalities. While it is most important that the borrowings should be within safe and well defined limitations, there are difficulties in the way of making an arbitrary and general rule.

The municipalities in Ontario and the eastern provinces would, with two or three exceptions, all qualify under such a rule, but few of the important western municipalities would do so.

In considering the gross debt per capita of any municipality the constitution of the debt should be enquired into. In some municipalities important debts have been incurred in the acquisition of gas plants, waterworks, electric light and power plants, street railways and other revenue-producing assets. While in these cases, even if the debt does exceed the limit 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 limit, however, is a liberal one under ordinary conditions.

(f) Net debt—The net debt is the gross debt less those debts which have been incurred for self-sustaining debts. It has been suggested that there should be a limit of net debt of \$100 for each person and that for this purpose the net debt should include the local improvement debt. If this were done in the case of the city of Toronto the figures would be \$52.50 for each person.

(g) Sinking fund—A seventh test is as to whether the sinking fund is sufficient and well managed.

#### Other Important Matters.

(h) Location and activities of the municipality—This is another test. 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.

(i) That its permanent officers should be efficient and honorable.

Two important matters about which the buyer should concern himself are:—

(1) That the debentures have been legally issued and their validity testified to by competent legal authority.

(2) The other is that the past record of the municipality should be above suspicion—or if it should have happened that the municipality has defaulted (of which there are few cases on record)—that the course pursued should commend itself to all fair-minded persons.

## PROVINCIAL BANK REPORT

The banking operations of the Provincial Bank during 1914 resulted in larger earnings than in the previous year. The figures as shown in the annual report are as follow:—

	1914.	1913.
Profits .....	\$194,214	\$190,126
Previous balance .....	12,873	13,866
Total .....	\$207,088	\$203,992
This being divided thus:—		
Dividends .....	\$ 70,000	\$ 60,000
Taxes .....	6,348	9,345
Premises .....	9,474	14,832
Patriotic fund .....	5,000	.....
Depreciation .....	77,365	56,941
Reserve .....	25,000	50,000

A position of strength is indicated by this annual report, which shows assets totalling \$13,484,820, of which 62 per cent., or \$7,366,661, are liquid assets, some \$3,000,000 of this being cash represented by coin, Dominion notes, etc. An increase of \$367,794 is shown in total deposits, which at the end of the year were \$9,189,702. Current loans were larger, the 1913 total being \$5,406,245 and that of the past year \$5,878,813. Call loans show a diminution of \$80,829 and stand at \$1,712,151. From the above it will be seen that the Provincial Bank has prepared itself for the exigencies of war time, as have the other Canadian banks whose annual reports have been presented.

The Toronto Terminals Railway is giving notice of an application to Parliament for legislation increasing the limit of the bonding powers of the company, also "empowering the company to acquire lands for and to construct, provide, maintain and operate at the city of Toronto freight and other facilities."