

## BROKERS CRITICIZE MUNICIPAL STATEMENTS

### Mr. Vere C. Brown Urges Western Borrowers to Clear Up Old Loans and Show Clean Sheet

For a market for Canadian government and municipal debentures it seems altogether probable that during the next few years we will have to look largely to the United States, and as municipal investment houses there are disposed to be more critical of the financial statements of municipalities than some British and Canadian houses have hitherto been, it is necessary that our western municipalities should set about putting their houses in order with the least delay, if they are not to be hampered later on in borrowing money for necessary works, was the message of Mr. Vere C. Brown, of the Bank of Commerce, to the Union of Saskatchewan Municipalities at the meeting at Humboldt.

It is generally admitted that western urban municipalities have been spending money on improvements of various kinds greatly in anticipation of further development. The result in most cases is a debenture indebtedness per capita much heavier than it ought to be. As far as the principal cities are concerned, financial authorities are not disposed to take the view that extravagance in capital expenditures has been carried far enough to endanger solvency, particularly having regard to the further development which must take place with the settlement of the land. Liberality of expenditure has been sufficiently marked to materially lower the prices at which further debenture issues will be marketable, and their saleability even at the lower levels will be dependent on the ability to convince investors, in the first place, that municipalities have not already got beyond their depth, and, in the second place, that as to the future they are going to profit fully by past experience.

#### Must Collect Taxes.

With regard to the first point, until our next period of growth sets in, a somewhat burdensome rate of taxation will be necessary in our cities. And the ability not merely to levy taxes, but to collect them with sufficient promptness to permit of each year's obligations being cleaned up at the proper time, will have to be demonstrated. The citizens have been living under lax legislation in the matter of tax enforcement, and ratepayers have been encouraged to regard taxes as one of the last items of expense to be met instead of one of the first. This has to be reversed. Each municipality owes it to the country at large to maintain its credit on the highest possible level, and this cannot be done where taxes are permitted to run in arrears to the extent which is now common. The provincial government of Saskatchewan is to be applauded for legislation providing for a tax sale at November 1st each year as to all taxes unpaid up to the preceding December 31st, and it may be hoped that this will furnish an effective remedy for existing conditions.

Then the work of the local government board affords ground for the expectation that in future it will not be possible for any municipality to enter upon a policy of capital expenditure beyond what is warranted on a conservative view of actual needs. The commissioners have properly been granted wide powers of supervision over such expenditures, and this fact is certain to prove of advantage to the credit of the securities of Saskatchewan municipalities. The maximum limits of the debenture borrowing powers of municipalities as defined by the statutes should be considerably reduced, so that the entire responsibility for maintaining the solvency of municipalities shall not be imposed upon the commissioners.

#### Smaller Debt Limitation Suggested.

A debt limitation of 20 per cent. of the assessed valuation existing in some provinces is too high, particularly in a new and rapidly developing country subject to periods of inflation of real estate values.

With regard to the limit of time within which debentures should be drawn to mature, Mr. Brown quotes from an article by Mr. W. E. McGregor in the 1914 *Monetary Times Annual*:—

"A debenture issued for public parks might have a long period to run to maturity, say 30 or even 50 years; a waterworks bond might mature at any time within 30 years (I think 30 years is a sufficiently long time for a bond of this class to be outstanding, as a waterworks system should, if properly managed, within 30 years be able to pay, out of the

revenue of the water tax, a sufficient amount to operate the property, maintain it, pay interest charges and sinking funds to pay for the system); school houses, city halls and other public buildings might have a maturity of say 20 years, but not longer; permanent sewer systems, say 30 years or less; electric light plants and distributing systems, 20 years or less; temporary improvements, like public buildings or school house furnishings, street paving, sidewalks, etc., should mature earlier than the average life of these improvements."

Expenditures for waterworks systems in small places have proved a source of embarrassment in more than one instance. No such outlay should be permitted until it could be shown to the satisfaction of the commissioners that the revenue derivable therefrom would be sufficient to meet the interest on the relative debt and provide a reasonable annual contribution to a sinking fund.

#### Begin the Year Right.

In connection with the levy and collection of taxes, there is one important matter in respect of which an amendment of the Saskatchewan municipal act is called for, and that is the date for the preparation of the assessment rolls. Under the Saskatchewan city act appeals against assessment need not be disposed of until April 10th. This means that the striking of the tax rate must be delayed until nearly a third of the year has elapsed, while a programme of current expenditures has been pursued in the interval without exact knowledge of what rate of taxation would be required to meet such expenditures. This is unsatisfactory, as apart from other important considerations, a lack of definite information respecting the year's tax levy, etc., is calculated to embarrass a municipality in arranging for necessary banking accommodation.

Is there any reason why appeals should not be disposed of so as to permit of the assessment rolls being completed by December 31st, so as to be ready at the turn of the year for the new finance committee?

#### Balance Sheet and Assessment.

Promptness is also called for in the preparation of the annual statement of assets and liabilities as at December 31st, and a date should be fixed by the municipal act providing for the completion of this statement not later than January 31st.

With a new balance sheet and revised assessment rolls in hand, the municipal authorities would be enabled to prepare the year's estimate, fix the rate of taxation, and complete their banking arrangements early in February. In view of the earlier date at which the tax rate would then usually be fixed it might be advisable to give councils power to increase the rate to some extent at any time before the issue of the tax notices.

In the matter of the date for payment of taxes, experience in the east has shown that in every municipality there is a considerable percentage of ratepayers who would be prepared to make an earlier payment of taxes provided an adequate discount were allowed; and the financial position of a good many western urban municipalities would be appreciably eased if provision were made for a payment of taxes in two or three instalments: July 1st to October 1st, or July 1st-September 1st-November 1st, subject to an attractive discount for prompt payment at these dates.

#### Bank Loans Overlap.

The usual situation in connection with finances of western municipalities, both urban and rural, is one where bank loans of one year heavily overlap those of another, owing to the large percentage of taxes allowed to run in arrears. It is to be expected that whatever amendments are made to the tax enforcement clause of the municipal act a certain proportion of taxes will have to be carried in arrears over the year-end by every municipality, but a municipality should aim to so shape its finances as to be able to carry such arrears of taxes and at the same time effect a clean-up of all its own floating liabilities at the year-end. In order to accomplish this the tax levy for three or four years should be fixed at a level in excess of the actual requirements until a surplus has been created sufficient to offset the average amount of taxes having to be carried in arrears at the year-end. A good many municipalities have been pursuing this policy latterly, but as the municipal act does not expressly authorize a tax levy in excess of actual requirements, the situation has had to be met by the roundabout method of preparing estimates of expenditures at figures beyond what