

MUNICIPAL DEBENTURES BOUGHT

MUNICIPALITIES WILL PROFIT
BY COMMUNICATING WITH US
WHEN CONTEMPLATING THE
- ISSUE OF DEBENTURES -

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which has already come to pass, completely upset public confidence in England, caused the hoarding of gold by individuals on an enormous scale, the liquidation of securities intermittently at panic prices, and the temporary withdrawal of many investors from the security market caused a distinct money stringency in Canada, a country which had been for a long time looking abroad for permanent capital.

The source of supply being cut off and the financing of our undertakings being left in our hands, the banks had a very difficult task to perform. They had first to assist legitimate lines of industry, in order that the general trade of the country would not receive a setback, or be seriously affected. Their commitments to the agricultural, manufacturing, and varied industries being uncommonly heavy, they were not in control of sufficient funds to further assist municipalities in capital expenditures, pending the sale of bonds, and even if they had the available money it is just a question if they would have favored lending it to municipalities on account of the congestion of the bond market. The anticipated large sale of municipal securities which was expected to take place in 1913 to cover the borrowings of the previous year, did not materialize, and the same may be repeated in regard to bank loans made in 1913, which have not yet been covered by sale of debentures during this year.

Where municipalities deem it necessary to install water works and sewerage systems, lay pavements and erect buildings in the interests of the public, the municipal authorities should commence well beforehand in regard to financing the projects, for it is not within the province of the bank to provide funds for these purposes, even temporarily. The debentures should be sold and the money in hand before any contracts are let. If the municipal councils would pay heed to this, they would find no difficulty in obtaining loans from the banks for the ordinary routine expenses of the municipalities or the amounts directly chargeable to the current year's tax levy.

From a banker's point of view, the ordinary methods of advertising certain debenture issues for sale have not proved satisfactory during the past few years, and this process of hunting purchasers for municipal bonds in vogue is too slow for the present age. When the amount of capital for investment is limited, municipal bodies should strive to place their debentures in the most favorable market, which can only be done through a first-class bond house, and for some time to come, no municipality should undertake municipal improvements of a permanent nature until the bonds are actually sold and the proceeds are in hand.

The unprecedented demand for money during the past few years at remunerative rates by many worthy concerns, has left municipal offerings overshadowed, on account, principally, of the latter's comparatively low rate of interest. While the safety of most of the western municipal loans cannot be questioned, still there has not been a quick turn-over, and the immense total arrears of taxes that is piling up yearly forbids a complete clean-up before the close of the municipalities financial year, and this detracts from the value of the business from a banker's view point.

The municipalities must put to work an effective form of collecting machinery, and the collection of taxes should be energetically pressed by every council before the date of their retirement takes place. A new municipal council usually plans for the current year, instead of taking hold of the past year's arrears of business in a thoroughly business way. The old adage that there is nothing surer than death and taxes, does not apply to the West literally. Scientists have not yet devised a means of preventing death, but the tax payer has religiously avoided paying taxes on his unproductive properties, which, in the course of events, necessitates the lands being offered for sale, and in many cases being bought in by the municipalities—an action which does not meet with favor, on account of the non-contribution of cash to the municipal treasury.

Formerly municipal accounts are more attractive, on account of the substantial sinking fund balances carried with the banks, but of late years and especially in the West, municipal experts have learned that the burden on the tax payer is lowered by adopting the installment or annuity method of debenture repayment. Taking an independent point of view, I cannot fail to agree in this, unless the municipality can invest their sinking funds at a higher rate of interest than banks allow on sinking funds deposits.

From the investor's point of view, the sinking fund plan is more attractive on account of the sinking funds built up locally from year to year, and not applied until the debentures mature in due course, usually ten, twenty or thirty years; whereas, in annuities or installments, interest