

Notes on Municipal Finance

By JAMES MURRAY.

MUNICIPAL BOND SALES GOOD IN CANADA.

The financial reports for 1914 show very exclusively that while the general sale of municipal bonds had decreased considerably, the sales in Canada had increased by over 50 per cent. This, of course, was brought about by the difficulty of placing Canadian municipals on the London market because of the rumors of war about the middle of the year, thus forcing our municipalities to place their issues on the home market, and the bond dealers to start a campaign of educating the investing public to their value. That the campaign was successful is exemplified by the figures which are given below, and suggested above. The figures are encouraging, too, as bearing out the contention of this Journal, that if Canadians knew the value of their own civic securities they would buy them in preference to foreign securities, which during these last few years have been sold very largely in this country.

Canada's Municipal Bond sales for 1914 are as follows:—

In	1914.	1913.
Canada	\$ 34,483,359	\$ 20,550,239
Great Britain	32,347,435	68,882,644
United States	12,303,200	21,168,053
Totals	\$79,133,994	\$110,600,936

SHORT TERM BONDS.

As a result of the war many municipalities were not able to place their bond issues on advantageous terms, with the consequence that they had some difficulty in financing their public works, which were partially under way, and a number of towns issued treasury notes for six or twelve months and the large cities such as Toronto and Montreal, short term debentures. This close financing has brought up the subject of how should municipal securities be issued and what should be their life before maturity. As in the near future the United States will be one of the principal markets for Canadian securities, this subject is important, for while in London long term bonds were the most popular, New York prefers short term bonds. While chatting with the manager of one of the big American bond houses, who is a very keen student of municipal finance, I gathered that there is a growing tendency for American municipalities to issue bonds to last the life of the utility for which the issue was made. For instance, should a municipality decide to construct a new road, which in the ordinary course will last ten years, and which will cost, say \$60,000, a ten-year issue for that amount is made, and a proportionate sinking fund is created to pay it off. It is claimed for this system that those who enjoy the said road pay for it, whereas under the long term of forty years, posterity has to pay for something it does not enjoy, as the road will have been worn out, or if the road is rebuilt, will have the double burden of paying the debts of the past and the present. All of which means that in the United States, each municipal generation must pay for its own improvements.

SERIAL BONDS.

Another system of municipal financing they have in the United States is that of serial bonds, which in short, means that a proportionate amount of the issue matures each year, which works out something like this. Suppose a serial issue of \$20,000 is made for ten years, ten separate issues of \$2,000 are made to mature in one, two, three years and so on. These bonds are very popular. But in the few cases where serial bonds have been issued in Canada a very different system is adopted, at least by the majority. That is a proportionate amount of the issue is paid each year with the interest, which while lessening the liability of the municipality does not help the investor, for the amount paid back is too small for reinvestment.

CARELESSNESS AND EXTRAVAGANCE.

But the principal point of interest that was brought out in the interview, was the feeling on the part of American bond houses (and Canadian houses, too) that amongst the smaller municipalities there is a tendency towards carelessness and extravagance in dealing with their finance, which, of course, will effect the sale of their bonds. If this feeling of suspicion is general, and from enquiries it would seem that it was so, the sooner it is eliminated, the better for the municipalities. Frankly, I believe there is little real ground for the suspicion, but however little, it is too much for the credit of Canadian municipal securities,

which cannot stand too high. As an instance of carelessness it has been pointed out that certain municipalities in this country keep changing their bank, with the result that many interest coupons are returned, because the local powers that be, have neglected to see that a sufficient fund has not been placed in the bank through which the bond was first issued, to pay the interest. The returning of coupons not only irritates the underwriters, but hurts the credit of the municipality itself, for it must be remembered that the buyers of an issue are scattered all over Canada, Great Britain and the United States, and returned coupons with no funds, or "N.S.F." at the Bank, to them means bankruptcy on the part of the municipality in question; the investors have not the means of knowing that it is but carelessness, until after much delay and loss of temper.

CANADIAN MUNICIPAL GOOD INVESTMENT.

But generally speaking, Canadian municipal bonds, in spite of a few shortcomings, have proved themselves amongst the best investments in the world—gilt-edged as regards their security, for not one municipality has failed to meet its obligations, though some have been a little slow at times, and profitable, for the reason that comparatively speaking, their prices are low, yielding 5 per cent to 7 per cent, and no doubt it is because of this good yield on a safe security that has enabled the bond dealers to sell so many municipals in Canada, amongst people who have saved a little capital, particularly retired farmers. The difficulty of selling amongst ordinary investors is the difficulty of finding a ready market for reselling, but this would be obviated to a large extent if legislation could be brought about by which trustees are allowed to buy any Canadian municipals. At the present moment, trustees are limited to those municipal bonds issued within their own province, thus lessening their choice.

DIFFICULTIES IN SELLING BONDS.

A further difficulty in the popularizing of Canadian municipal bonds in the past has been the municipalities themselves, for once they have had their bonds underwritten, they wash their hands of the whole business; not realizing that the sooner an issue is sold to the public, a better price is secured for the next one. It has been known where bond houses, which have taken up blocks of municipal issues from the underwriter, have been refused special information by the officials of the corporations in question. This is not very conducive to the selling of the bonds. It is the lack of these small courtesies and the mean carelessness at times displayed, that are obstacles in the popularizing of municipals, and the wise municipality will eliminate them.

REGINA ACCEPTS BANK OF MONTREAL'S OFFER.

The city of Regina has accepted the Bank of Montreal's offer to negotiate treasury bonds to the extent of \$1,750,000 at a very favorable price. The offer of the bank was made to the city council on the first day of the year, but could not be accepted until the new council had organized. The finance committee has now gone into the matter thoroughly, and has recommended the acceptance of the offer.

SASKATOON'S ASSESSMENT.

The following statement shows the expenditure, assessment and tax rate of Saskatoon, Sask., for the years 1912, 1914 and 1915:

	1912.	1914.	1915.
Assessment	\$36,728,360	\$56,679,426	\$48,000,000
Tax Rate	14 mills	12 mills	11 mills
Expenditure	\$566,081	\$646,819	\$528,000

It will be seen that the estimated expenditure for 1915 is \$118,819 less than in 1914 and \$268,745 less than in 1913.

The sinking fund and interest allowed in the estimates for 1915 is \$222,281; in 1912 it was \$89,190. After deducting these sums the amount of general expenditure in 1912 was \$476,891, as against \$305,719 in 1915, or a reduction of \$171,172.

GOOD ROADS CONGRESS.

It has been decided that the Good Roads Congress, which was held in Montreal last year, and of which the Canadian Municipal Journal published a daily sheet and a special number, will be held in Toronto in the latter part of March.