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## Municipal Finance

### MUNICIPAL SINKING FUNDS IN PROVINCE OF QUEBEC.

We have been examining the new act establishing a Municipal Department in the Province of Quebec and we can honestly congratulate the government on the thoroughness with which it means to administer local affairs. It has been said that it is a strong act. It is. Every opportunity given for good local government and none for maladministration, and in the hands of a good minister, such as the present incumbent, the department can be made to serve well the citizens of the municipalities that comprise the province. . . . If we have any criticism to offer it is on the low rate of interest that the government gives to the municipalities for their sinking funds, particularly in view of the fact that money is very dear to-day and likely to be for some years.

According to the Act, each municipality must provide a sinking fund for every issue put out and the said sinking funds must be invested with the government which allows  $3\frac{1}{2}$  per cent interest. This is too low, though there is no doubt about the necessity of an adequate sinking fund to retire each bond issue at maturity, and that the sinking fund should be kept up. Now this so far as the Province of Quebec is concerned is a long way from being the fact. There are many councils who have not paid anything to their sinking funds for years—some have ignored the fund altogether—in spite of the by-law establishing a sinking fund that the councils have to pass with each issue made. There is also another side of the question which must be considered. Outside altogether the moral and legal obligations of the councils to see that their sinking funds are up-to-date there is the loss to the community when they are not carried out. For instance, three long term issues of a certain municipality mature during 1920, 1921, 1922, all bearing interest at 4 per cent. In none of the cases has the sinking fund been maintained and consequently new issues must be made to retire the old ones, for which at least 7 per cent interest has to be paid. In all the cases the utilities for which the original issues were made have long since served their usefulness and purpose, so that the citizens of this generation will not only be forced to pay three huge principal sums for something they have not got, but must pay an additional interest of 3 per cent over those who did enjoy the original utilities, but who did not pay a cent of the principal. And these are not exceptional cases by any means. As a matter of fact most of the municipal borrowings within the Province of Quebec for the last few years and will be for the next few years, were and will be to retire old issues. Is it any surprise then that the provincial government, through its new municipal department, is determined to see that sinking funds are in the future properly provided for.

But there is a phase of municipal financing that the new act does not touch—the bringing up-to-date of the sinking funds to retire the present indebtedness of the municipalities which in round figures amount to \$167,000,000. Many of these debts have many years to run before they mature and though the average sinking fund is in a bad condition there is every reason why they should be brought up-to-date, or at least put into such a position that they will retire the bonds, if at all possible. Frankly we have for a long time been rather pessimistic about bringing old sinking funds to date, but recently we have had the opportunity of studying a scheme worked out by the Quebec Savings and Trust Company of Montreal for this very purpose. The idea is really the outcome of a letter sent out by this company offering its services to the municipal councils of Quebec to act as trustees of sinking funds. In reply to the letter, a number of councils expressed a desire that the company should take care of their sinking funds, only they were on the short side. How were they to get out of the difficulty? Hence the scheme, which is at once simple, and practical and lays no undue burden on the municipality. The procedure is something after the following: Each issue to be considered is closely examined, together with its sinking fund, and then adjusted by adding a small percentage to the annual payments sufficient to pay off the debt at the proper time, all of which means that instead of a council having to suddenly find a big sum