

MUNICIPAL BORROWING.

By J. J. GALLOWAY.

Municipalities borrow in two ways: They obtain loans from the banks to provide for the ordinary expenses of the municipality, so as to overcome the difficulty of waiting until taxes are collected. They also borrow from banks in anticipation of the sale of securities in London or elsewhere, which may have been authorized for some particular municipal undertakings, such as water supply, sewers, pavements or public buildings.

In regard to the first, there have been no difficulties in the way of borrowing, and the banks have been very glad to provide the necessary funds so long as the municipal authorities were not too extravagant in their ideas of what really ordinary current expenditure was, and arrears of taxes were not accumulating at a rate to cause apprehension as to the ultimate date of payment.

In regard to the second, the practice of banks making advances for extraordinary expenditures in anticipation of the sale of debentures, was fundamentally wrong, unless the bonds were actually sold and loans were of a very temporary nature. The latter has not been the case, however, and some degree of dissatisfaction has set in between the municipalities and the banks, because the latter were forced to take a prudent course, and demanded curtailment of activities. Firms or individuals who contemplate the erection of a large block or extensive improvements entailing the outlay of large sums of money beyond their own capacity, arrange in advance for the necessary mortgage loan, and the banker being assured that the proceeds will be forthcoming during the progress of the building or on completion of the structure or improvements, very often makes temporary loans, pending receipt of the mortgage moneys. Municipalities should have been treated on the same basis, and if they had, there would never have existed the present measure of discontent and visible estrangement with the banks in regard to their banking arrangements.

During the past year, when municipal bonds were difficult to sell, the banks declined to lend on the old terms. Municipalities therefore had to curtail their activities. This action on the part of the banks gave rise to unjust criticism being directed towards them by municipal corporations, whereas the position of affairs should have been viewed in a calmer and saner light, and the curtailment of expenditure taken into consideration more philosophically than a great many of the municipal bodies were inclined to do. The banks could not be held accountable for the unprecedented state of the bond market, but the municipalities themselves were directly responsible for having surfeited it by their own enormous offerings.

I believe the banks have done their part admirably well in providing loans for current expenditure, but when new borrowings for routine overlap the old, there arose cause for some concern, and there was an apparent danger that municipalities were not keen to comprehend. I venture to remark that a few banks are still carrying balance of certain loans made for current expenses in 1912, which brings to view a feature of municipal borrowing that demands a remark in passing. Where this exists, there can be only three reasons assigned for the municipality's nonfulfillment of its obligations to its particular bank, i.e., the municipality had over-borrowed during the year for ordinary routine expenses, or, they had made outlays that were of a permanent character and should have been covered by an issue of debentures or, they had failed to make sufficient collection of taxes and had allowed arrears to accumulate.

Where a cause for discontent existed, being promoted by the above features, could there be any just argument advanced by municipal councils as to why banks should continue to make loans, and more particularly to enable municipalities to swell their extraordinary expenditure accounts, in anticipation of the sale of debentures; and more especially when the most eminent bankers of our country and the foremost financiers of England, with a broader vision of affairs than the average municipal finance committee, pointed out the danger that must result from such a conglomeration of municipal bond issues that had already been offered, and were only a small percentage of the aggregate amount under way. The Canadian banker had to take heed to the warning and instruct the municipalities to call a halt for fear that the banks would have to carry indefinitely advances depending upon the sale of debentures.

During the year 1913, the protracted Balkan struggle and grave fears of an international outbreak in Europe,

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