

# The Chronicle

Banking, Insurance and Finance

ESTABLISHED JANUARY, 1881

PUBLISHED EVERY FRIDAY

Vol. XXXVIII. No. 6.

MONTREAL, FEBRUARY 8, 1918.

Single Copy 10c.  
Annual Subscription \$5.00

## MUNICIPAL FINANCE.

The far-reaching provincial control of municipal finance proposed in the series of bills introduced by the Government into the Quebec legislature is unquestionably on the right lines. With the new Department of Municipal Affairs energetically administered, the municipalities will be forced into the ways of sound financial practise, to the benefit of both themselves and their creditors. That the powers of the new Department will be sufficiently drastic is shown by the provisions of the proposed law making sinking fund deposits with the new Department obligatory. The Department will, in turn, invest these funds in Government and municipal securities, the difference between the rate of interest secured by the Department, and the deposit rate allowed the municipalities, of  $3\frac{1}{2}$  per cent., being utilised to meet the Department's expenses of administration. Upon any issue of municipal bonds becoming due, the Government will pay the funds over to the bank where the bonds have to be paid—the municipality will not get a chance to handle the money. Municipal borrowings are to be subject to time limits, dependent upon the purposes for which the borrowings are made. Thus the unsound but too common practise, of floating a 40-year loan for work which has a prospective life of only 20 years, will be done away with. Serial bonds, which have lately been strongly advocated by Toronto's financial commissioner, Mr. Thomas Bradshaw, as being an economical form of borrowing, will be favored. Municipal book-keeping is to be conducted upon approved lines, under the supervision of Government inspectors, diversion of funds from the object for which they were borrowed, is forbidden, the local machinery by which public approval is secured to proposed borrowings is overhauled and tightened up, and a series of severe penalties provided to keep both local officials and members of municipal authorities in the straight and narrow path of compliance with the law. This comprehensive scheme of legislation will, undoubtedly, be welcomed by that portion of the financial community interested in Quebec municipal issues, as calculated to secure a more business-like administration of local affairs and finance, and to limit the opportunities for careless and wrong-headed administration by the duffers who get elected to membership on public bodies. In time, there will be a favorable re-action upon the local municipalities' credit.

In Alberta, a movement has lately been set on foot by three or four of the leading cities, with the connivance, if not the actual backing of the provincial government, to extend the sinking fund term of various of their loan issues, in other words, to postpone paying their debts. The movement has been started as a desirable method of avoiding impending difficulties. But, in view of the necessity of maintaining Canadian municipal credit at a high level, it seems that such drastic steps as those proposed, should not be lightly undertaken. Most certainly, the leading financial houses, through whom the distribution of the bonds of these cities has been made, and the institutional investors who have placed large sums in them, have a right to be consulted regarding any re-arrangement desired by the municipalities, or found to be necessary. Moreover, a searching investigation by an independent authority of the financial position of each of the municipalities concerned, would seem to be a primary need before any plan is developed. In the light of the information made available by such an investigation, suitable action could, no doubt, be arranged. Newspaper reports suggest that the municipalities concerned were prepared to go ahead without any reference to financial houses or bondholders. Such an attitude does not reflect much credit upon those concerned, and, were it persisted in, would, undoubtedly, result prejudicially upon the credit of these cities. Certainly, bondholders have a right to expect that any terms of re-adjustment be subject to the approval of themselves, or of the financial houses, who are in the position of their representatives. The debtor who wishes to make a modification of his arrangements with creditors, does not usually begin by ignoring the existence of the creditors. The Alberta cities will be well advised, in the circumstances of their unfortunate predicament, to take the financial houses and large bondholders into their fullest confidence, with a view to the most equitable re-adjustment possible, should such a re-adjustment be shown to be really necessary. It would appear desirable that any re-adjustment should be made upon the most conservative lines, consistent with the object to be attained. In any case, the necessary action will not have a favorable effect upon the credit of the cities in question, and to some extent, no doubt, municipal credit throughout Western Canada will be prejudiced as a result of it. Hence the necessity for the avoidance of radical action that is not shown to be absolutely necessary.