

CONSTITUTION OF ONTARIO MUNICIPALITIES

Operations and Conduct Regulated By Municipal Act— Classes of Bonds

Ontario's municipalities and their constitution were discussed by Mr. T. Bradshaw at a recent meeting of the Insurance Institute of Toronto. He indicated that the township, which is a rural division of considerable area, is the land originally surveyed and set apart as a township; the second division is the village, which is erected out of some section of locality in the township, which has a population of at least 750; the third division, the town, is a development of the village—it must have a population of not less than 2,000; and finally we have the city, which becomes such when the community can boast a population of over 15,000. In the settled parts of the province, the various municipalities are grouped into large municipal divisions—that is counties. Cities, except for judicial purposes, are usually separate from the county. Towns of at least 5,000 persons have the same right as cities to be separate from the county should they consider such to be desirable. The thinly settled and unorganized portions of the province are divided into "territorial districts," for example, Algoma District and Rainy River District. These, however, may contain cities, towns, villages and townships. The municipal acts regulate the operation and conduct of the various municipalities.

Direct Tax is Imposed.

In order to meet the expenses of the municipality and the debts falling due or incurred, including principal and interest under debentures, a direct tax is imposed. Each year all real property is assessed; in addition, there is the business assessment and an income assessment. As is generally realized, the assessed value of real property is considerably under the actual value. The whole of these represents the year's "rateable property," upon which the council fixes each year a rate of taxation, sufficient to yield revenue for the purposes referred to. In Ontario the council cannot assess and levy in any one year more than 2 per cent.—i.e., 20 mills on the assessed value, exclusive of school and local improvement rates. If it should happen that the annual requirements for expenses and debenture charges exceed the money raised through the 2 per cent. tax rate, the council is required to levy such further rates as may be necessary to cover the obligations up to that date, but it cannot contract further debts until the annual tax rate required to be levied is reduced to at least 2 per cent., or 20 mills. The effect of this provision, of course, is to check any municipality from incurring unwarrantable expenditure and debt.

Power to Issue Debentures.

Each municipality has the power, under certain well-defined regulations, to contract debts by the issue of debentures, for purposes within its jurisdiction. The debentures may be issued in any one of the following manners:—

(1) Payable at the end of a fixed term of years, with interest in the meantime, payable yearly or half-yearly. These are known as sinking fund or straight term debentures;

(2) Payable in annual instalments, the instalments of principal being of such amounts that, with the interest, the aggregate amount for both principal and interest in each year shall be the same. These are known as annuity debentures.

The more important municipalities issue their debentures according to the sinking fund plan. Investors are partial to this class because they prefer to have their investments run for a reasonably long and definite period; moreover, it is the method which the British and American markets are accustomed, and municipalities have found it desirable to pay attention to those details which will assist in the best marketing of their securities. The annuity method is regarded as being best adapted for the smaller municipalities, inasmuch as through the partial payment of principal each year the debt is being systematically liquidated and, consequently, the trouble and work of sustaining a sinking fund is eliminated.

While the investor is partial to the straight term or sinking fund bond, it is a much more costly method of financing for a municipality than the annuity plan, besides which it presents many difficulties. Just in passing, it might be

remarked that debentures, generally, in Canada, are issued to bear interest ranging from say 4 per cent. to 7 per cent. While the rate of interest borne by bond is of some importance, as by this is determined whether the debenture should sell at par—i.e., its face value, at a discount, or at a premium, quotations are usually made on the interest return to the investor which the selling price will give.

Must be Issued Within Two Years.

In Ontario, debentures must be issued within two years from the passing of the authorizing by-law, so that the rate which is levied in each year during their currency begins from their issue, and those who help to pass the by-laws must thus contribute towards their payment. The municipal act provides that the annual rate must be uniform throughout the currency of the debentures. The rate must be sufficient in the case of sinking fund or straight term debentures to pay the yearly interest and provide such a sum towards a sinking fund as, if invested at interest, will pay off the principal at maturity. The estimated rate of interest in determining the amount of the annual sinking fund, must not exceed 4 per cent. In the case of an instalment or annuity debenture the rate must be sufficient to meet the annual payment of combined interest and principal.

The period for which debentures may be issued is also regulated by the municipal act. For example, if the debt is incurred in connection with sewers, gas or waterworks, parks, schools, electric light, heat or power works, etc., debentures running for 30 years may be issued; if for the purpose of road-making, etc., five years. Twenty-four debentures may be issued for a number of general works. Of course it will be at once recognized that the longer the term of the debenture the smaller will be the annual rate which will be required to pay the annual principal and interest in respect thereof, consequently there is a temptation to extend the term of repayment as much as possible, so as to pass on to future generation the paying for that which we are now enjoying.

Procedure Required Prior to Issue.

The procedure required to be taken prior to the issue of debentures are such as to safeguard the purchaser's interest. Certain money by-laws require to be passed on by a vote of the electors; others do not.

(a). 1. In the case of money by-laws which must be passed upon by the electors, they must, after being read a first and second time by council, be submitted to the vote of the electors (freeholders and certain leaseholders). 2. The by-laws must then be published at least once a week, for three successive weeks, and posted in public places of the municipality, with notice appended of the time and place of voting. 3. If majority of those voting do so in favor of the by-laws, they are then passed by council, seal affixed, and signed by the head of the municipality and the clerk. 4. The by-laws are then registered in the registry office, and unless they are moved against within three months after registration they are absolutely valid and binding on the municipality. (b) In the case of those money by-laws which do not require to be submitted to the electors, in order to secure the benefits of the validation referred to, notice of registration must be published at least once a week, for three successive weeks, and the three months within which they may be moved against run from the registration.

Further Protection to Investors.

An important further protection to investors in municipal securities is the provision in the act that if the interest for one year, in the case of sinking fund debentures, or one or more of the debentures; in the case of annuity debentures, has been paid by the municipality, then the by-law and the debentures issued thereunder remaining unpaid shall be valid and binding upon the corporation and shall not be quashed or set aside on any ground whatever.

The case of a municipality defaulting in the payment of interest or principal under its debentures is remote, but it may be interesting to consider the bondholders' remedy.

1. Any bondholder whose bond or interest thereon is in default can sue the municipality, and upon getting judgment he will put an execution in the sheriff's hands. The sheriff will obtain the assessment rolls prepared by the municipality for collecting their taxes, strike a rate over the whole property of the municipality sufficient to pay the judgment debt, and collect the amount due in the same manner as the tax collector gathers in his taxes. 2. In the event of some of the levies not being met, the sheriff is entitled to levy again and again, until his debt is paid.