

Sinking Fund Accumulation and the Desirability of Their Abolition.

Read by Geo. F. Jewell, Esq., F. C. A., City Auditor, London, before the Ontario Municipal Association, at its meeting on the 11th Sept., 1900.

The principle which underlies the system of sinking fund provision is that the debts created for municipal or other purposes should not necessarily be of a permanent character, but should gradually be reduced so that it should become possible from time to time to raise the necessary moneys for further desirable works and improvements without unduly increasing the total of the general indebtedness, and this principle I unhesitatingly endorse.

There is, however, much that appears to me objectionable in the manner in which the principle is usually applied, viz., by setting aside a certain sum as named in the by-law creating the loan year by year during the currency of the debentures to which it has relation, which amounts, together with the interest they may earn upon investment, shall equal the full value of the debentures at the time of their maturity, the result being predicated upon the basis of a certain rate of interest upon the investments, which rate may or may not be maintained, the municipality having to invest or deposit at interest the periodical accretions to the fund and being under the recognized risks of variation in rate of interest and of the custody of the securities for such investments and of the condition of the market where such securities have necessarily to be disposed of to meet the obligations of the fund—the interest on the original amount of the debentures is paid, half yearly or otherwise, to the debenture-holders, but the amount which is to eventually pay the debt remains in the custody of the municipality until the debt matures.

Now, I claim that these accumulations are not only objectionable, as I have stated, but unnecessary, inasmuch as the entire debt could be met by a series of repayments, each of which should include not only the interest but also a portion of the principal, and which would equal the two separate amounts which, under the existing system are provided, first, for the annual interest on the debt, and second, for its eventual extinction; each of such repayments being represented by a bond or bonds to the amount of the entire levy of each year in respect of such debenture issue. This would much simplify the whole procedure, reducing the labor and responsibility to a minimum and while the principle of the gradual extinction of the debt would be most effectively observed, there would be no Sinking Fund accumulations, with their cumbrous machinery and anomalies, and the debt would be shown as having been positively reduced.

It may be said that the end sought to be attained is now accomplished by the mode in which certain municipal debentures are now prepared, viz., in series of debentures of different amounts of which

one debenture matures in each year while the interest is provided for in the shape of coupons, but this form of debenture would not be generally acceptable or practically applicable in the case of loans of considerable magnitude while it still retains all the necessary detail as to the interest coupons.

I quote from our Municipal Auditors' Report, in which they have brought this matter under our notice, as follows:

"The entire system of Sinking Fund accumulations needs revision and are as far as similar results can be otherwise arrived at should be superseded, and we think that the time has come when it is well to broach this subject in order that its bearing upon financial interests may be considered and understood, and that in due time such legislation as may be found necessary or advisable, may be procured. In explanation of our meaning we will take our own Consolidating Issue of 1891, as it is, and as an issue for the same purpose might be under conditions such as we consider desirable, as example: To provide for the payment of the annual interest, and to create a fund for the retirement of the entire series of debentures, \$2,000,000, in forty years on a four per cent. basis, it was necessary to levy every year since that period, the sum of \$101,047, which included \$21,047, a sum which if annually invested and producing an interest at four per cent. per annum, would in forty years amount to \$2,000,000. In order to reduce as far as possible the burden and risk of exceptionally large accumulations, it was arranged that the debentures might be matured in groups, so that the particular Sinking Fund relating to them might be periodically used up, but there is still sufficient difficulty in financing the fund during the periods of five years intervening between the maturities so as to avoid loss, and through the whole term we have to face the responsibility of the custody of the securities, the possible loss by fluctuation of the interest earning power of money, and the risk of market when the securities must be converted, besides the half yearly payment and registration of the coupons for interest.

If education and legislation upon such matters had both sufficiently advanced, it would have been possible to issue bonds, without coupons, \$101,047 of which should mature every year for forty years, the indebtedness incurred by the city would have been identically the same as in the actual consolidation; the amount raised in each year would have been directly applied in payment of the bonds then maturing, say 100 of \$1,000 each, and a single bond of \$1,047, and there would have been the end of it; no coupons, no sinking fund, no risks of investments, interest rates, and what not; a pleasing prospect, but unavailable, from the fact that such an issue of bonds, though actually representing the same indebtedness, would appear on its face as \$4,041,880

instead of \$2,000,000 and would be beyond the limit assigned to the city in respect to its borrowing powers.

There should be no serious difficulty in procuring legislation which would remedy the objectionable features of the present system, and would authorize the representation of such bonds as a present indebtedness from time to time at their actual value, the Acts and by laws relating to their issue, stating upon what basis such value should be calculated and determined. Large blocks of municipal debentures are sought for largely by corporations and financial institutions who do not so much desire the return of interest by periodical payments as a permanent investment for a definite period, and would apply similar calculations from time to time to arrive at the value of their investments."

I think that such a gathering as the present furnishes exactly the opportunity needed for the full discussion of the foregoing subject, and feel that a matter of such general municipal interest deserves careful investigation, as the result of which I hope for much simplification and improvement in system.

Influences That Make Live Towns.

A live town was never the result of an accident. That is true. It is always the creation of the pluck, energy and enterprise of the men who build its factories, shops and residences. No progressive town or city was ever shaped and fashioned by men afraid of their own shadows. A community constantly employed in the betterment of its public institutions, in the consideration of problems affecting the welfare of the individual, reflects the aims and aspirations of its citizens, who cannot in the nature of things have anything in common with the grumbler and growler whose chief purpose in municipal life is bound up in an unyielding devotion to the cause of the pessimist.

A live town is an aggregation of forceful personalities. It could not advance and be anything else. It always sees a goal ahead, to attain which it is ever on the move. Who would not prefer living in a town dominated by such aspirations and under the influence of progressive spirits than in a place where the pessimist rules and life is one continuous yawn. A town is just what its men and women make it.

Municipal Ownership.

Municipal ownership long ago passed out of the stage of theory and experiment, if, in fact, it ever belonged there. Centuries before America was discovered public ownership of public utilities was highly developed. The city of Rome 2,000 years ago possessed its splendid public baths, its superb aqueducts and other utilities owned and managed by the government.