

Taking into consideration the trouble, anxiety and possible loss in connection with the administrative and investment of sinking funds, the care and supervision required for their proper administration, the expert knowledge required of officials, the additional cost and expense of investment, the additional cost of the sinking fund method over other methods of repayment, when investment is not made, to make up the difference, it would be well for local authorities to consider whether the additional price (if any), which they may obtain for long term debentures, will sufficiently offset the disadvantages of the sinking fund method, especially for the smaller local authorities whose borrowings are seldom of sufficient magnitude to reach the larger markets where the sinking fund method of repayment is almost demanded.

The Administration of Sinking Funds.

In investing sinking funds, it should always be remembered that they are trust funds, and should be administered as such. The keynote to all investments should be security rather than large returns. It is really money set aside for the holder of the debentures in order that we may rest assured that when the time for repayment arrives there will be sufficient money ready and waiting to retire the loan. It is a fund that when invested should be in securities of like safety to the original loan itself.

The investment should not be restricted to one kind of security, but should be in different kinds of securities, not centred in one locality, but spread over as large an area as possible. Personally, I am very much in favour of investing in the debentures of other municipalities, school districts and government securities rather than in mortgages. If mortgages are taken at all they should be taken on only gilt-edge, revenue-producing properties, with a limit of approximately one-third of the appraised value of the property. The mortgages should be taken preferably on lands outside the limits of the local authority making the investment in order that the investing area may be extended and all local feeling removed.