

Western Canada's Municipal Financing

Change of Canada's Bond Markets, due to the War, Brings to an Important Point the
Advisability of Improved Financial Methods—How Western Canada
May Enlarge the Market for its Municipal Securities

TO date this year Canadian municipalities have sold about \$16,000,000 worth of their securities in the United States. According to authorities well posted on the situation, an excellent demand exists there for good Canadian municipal bonds. Several reputable houses, engaged for many years past in selling municipal securities, would, under certain circumstances, purchase the bonds of towns and cities throughout Western Canada, being able to dispose of them without trouble to clients in the United States. A market is ready and so are the proper intermediaries. Western municipal financing, however, as a whole, has been such as to fail to make attractive to United States investors, Western Canada's municipal bonds. Some have been sold in the neighboring market, but an analysis of the situation indicates that only a small part of the available market has been tapped. Western Canada knows well that free and easy municipal financing has been in vogue during the past few years. Some of the troubles resulting from that policy are already being met. *The Monetary Times* has criticized these methods, and does so now, not to harm Western credit, but to point the way to better credit, to increased facilities for the marketing of bonds and to an extension generally of the present market for Western bonds.

For many years to come, the civic rulers of Western Canada will have a heavy volume of municipal securities to sell. For the time being, the English money market is closed to their applications for funds. After the war the English market will be busy with war loans and probably will be flooded with applications for capital, for other purposes, from all quarters of the globe. Canada will take its chances with other borrowers. Through force of circumstances, there may be less funds subscribed there for Canadian municipal applicants. Canadian banks can finance the civic authorities only to a certain extent. The Canadian investment purchasing power is limited. Therefore the United States, which has vast wealth and is rapidly becoming an important lending nation, should prove to be a valuable market for Canadian securities.

The power of that market to absorb our bonds has been demonstrated in a striking manner during the current year. During the first four months of 1914, Great Britain took 73 per cent. and the United States 10 per cent. of our securities. During the corresponding period of the current year, Great Britain has taken 30 per cent. (only one loan of \$25,000,000) and the United States 55 per cent. of the total securities sold, and representing 29 loans. But, broadly speaking, the United States is picking and choosing its Canadian bonds with great discrimination. Bond houses could sell a much larger volume of our securities in that market if those securities appealed to their clients. They do not appeal. The United States investor has gone through the municipal development "boom" in various states. He has seen municipalities fail. He knows what a municipality should and should not do. From practical experience he knows a good municipal bond when he sees it. He has been educated to a certain standard of municipal financing which he believes makes for safety in investment. In examining

the bonds of many Western Canadian cities and towns, he finds that standard lowered to what he believes is a dangerous point.

The question therefore arises for our Western municipalities, whether or not they think it worth while to institute and to assist reforms in municipal financing which will appeal to United States investors. *The Monetary Times* thinks that Western Canada should not hesitate one moment in initiating those reforms. From the dollars and cents viewpoint alone, such a policy will be well repaid. If the West wishes to sell its bonds in the United States it must do what it is always telling the British manufacturer to do, make its goods suitable to the market.

There are many points in connection with our municipal financing which are the subject of criticism by United States investors and bond houses. Two of the principal are in regard to the net debt and the assessment. As was pointed out in *The Monetary Times* two weeks ago, Canadian cities showing inflated valuations, excessive debts, etc., are not looked upon with favor by the United States investor. Mr. W. E. McGregor, a prominent bond expert of a New York investment house, writing in *The Monetary Times Annual*, 1914, said: "Whenever a United States investor, who is educated to analyze a financial statement of a city, is offered an issue of Canadian municipal bonds, about the first criticism he offers is to the financial statement. The net debt is usually so large in proportion to the assessed valuation that he hesitates very much even to consider the purchase of the security. On further analyzing the debt statement, as to the assessed valuation per capita, he is very likely to find that this ranges from \$1,500 to \$3,000 (showing inflated value).

"It is generally considered in the United States that an assessment of \$1,000 per capita is about as high as it is conservative to figure on, a great many of our cities averaging even lower than this, though actual value is more. The total debt per capita is also from his viewpoint excessive. The net debt, that is after deducting the waterworks debt and sinking funds, from the total debt, figures 10 per cent. to sometimes 20 per cent. of the assessed valuation (which assessment may be admittedly high), and the net debt per capita is also large. He compares these figures to cities in the United States where the total debt and net debt average much lower. In fact, many states have debt limitations of 5 per cent."

There are three movements which *The Monetary Times* thinks would have the desired effect in improving the credit of, and the markets for, Western Canadian municipal bonds. The money raised for local improvements should be a debt upon the property improved only and not a debt upon that of the whole community. In other words, the funds would be raised as money is on a mortgage. Paying for local improvements in this way would tend towards economical civic financing. It would curb the activities of real estate sub-division promoters, who have managed in the past to burden cities with the debts of local improvements in various sub-divisions;