

SERIAL BOND IS MOST ECONOMICAL.

There are various ways for a municipality to provide for and meet the payment of its outstanding obligations; by issuing bonds of which the entire issue matures at one date, establishing a sinking fund with which to pay the issue when due, by the issuance of bonds which mature at one date with the privilege of redeeming them on or after some earlier date, and by the issuance of bonds which mature in periodical instalments.

If the sinking fund method of meeting debt is to be used, it is best to protect each bond issue separately by creating a special sinking fund to take care of each issue. But since it is notorious that sinking funds are appropriated for other than the uses for which they are intended, a statute should explicitly state they are to be used for no other purpose than the payment of such debt. The object of a sinking fund is to lay aside money year by year toward the payment of a debt at some future time, this fund to be most safely disposed for accumulation until that time. But sinking funds are not only subject to suspension and appropriation for other uses, they are costly methods. Sinking funds do not amortize a debt, they merely offset it. The only way to sink a debt is to pay it.

Serial Bonds Are Better Financially.

If not sinking funds, what then? The alternative is serial payments. A municipality instead of establishing a sinking fund may provide for the payment of bond issues by such annual payment as will extinguish the same at maturity. The benefits that have accrued have influenced many municipalities to adopt this policy. The simple and economical method of extinguishing a debt is to pay it in equal periodical instalments. This is the serial bonds method. As an example, the difference in actual cost of a loan of one million dollars maturing in twenty years, bearing an interest rate of 4 per cent. on the assumption that the sinking fund can earn a like rate and the cost of a loan of one million dollars at 4 per cent. maturing periodically would be \$40,231.00 in favor of the serial bond method.

Bond issues may be callable at par, either in whole or in part on or after a given date. This privilege of recall makes it possible for a municipality to take advantage of any general lowering of interest rates. However, bonds that mature serially are almost never callable for the method of amortization hardly admits it and refunding defeats the very purpose of serial retirement.—By Leonard Callender.

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