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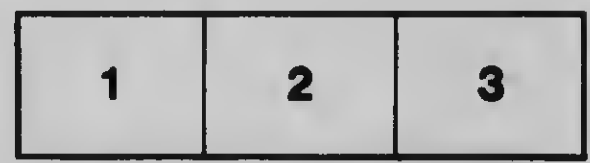

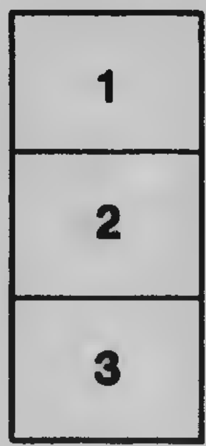

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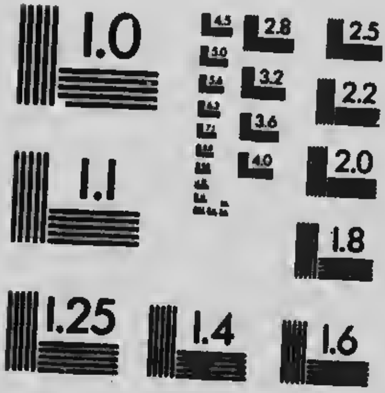

SOME NOTES ON MUNICIPAL FINANCE

BY

THOS. BRADSHAW
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BY THOS. BRADSHAW

Of Messrs. A. E. Ames & Co.

Delivered before the Seventeenth Annual Meeting of the Ontario Municipal Association, September 2nd, 1915.

AMONG the many problems confronting a municipality there is probably none which concerns its citizens more, and which so vitally affects its credit and future, as that of sound Finance. This statement will be best appreciated when the large increases in our municipal debts, in our yearly borrowings and in our tax levies for interest and repayment of principal on these debts are considered.

In view of the disturbed financial conditions the world over, the important obligations of our municipalities, and the necessity for further heavy borrowings from time to time, it is believed that any practical suggestion which will have a steadying influence is worthy of attention, and without further preliminaries I will proceed to discuss three features of municipal finance:—(1) method of repayment of permanent loans, (2) rate of interest which loans should carry, and (3) administration of sinking funds.

1. Method of Repayment of Permanent Loans.

The three recognized methods of repaying moneys borrowed by municipalities for a long term of years are, (a) Sinking Fund, (b) Annuity Instalment, (c) Serial Instalment.

It is submitted that municipalities should, in practically every instance, adopt the instalment method, either annuity or serial, instead of the sinking fund method, chiefly because of the heavy financial loss involved in the sinking fund method. Many of the smaller Ontario municipalities issue only instalment bonds, and in this they have shown greater wisdom than our important cities, most of which still persist in obtaining their loans by the issue of long-term Sinking Fund Bonds.

Let us consider the essentials of each method.

(a) *Sinking Fund Method.* Bonds are issued payable at the end of a certain term,—5 to 40 years, according to the purpose for which the loan is required. Interest is payable half-yearly or yearly throughout the whole term on the entire amount of the debt, and the principal is payable in one sum at the end of the term. In order that the municipality may be in a position to pay the principal at maturity, a certain amount, accurately determined beforehand, is annually laid aside by the municipality, which, with its interest accumulations from year to year, reckoned usually at 3%, is sufficient to meet the amount of the loan. These annual amounts so laid aside, and their interest accumulations, constitute the Sinking Fund, hence the name by which the method of repayment is known. The moneys to pay the interest on the debt and to provide the Sinking Fund are, of course, obtained by levying a special tax, in accordance with the Municipal Act.

(b) *Annuity Instalment Method.* By this method the loan created is gradually paid off each year instead of at the end of the period. No Sinking Fund is required to be established, but the annual levy for principal and interest is immediately applied in payment of principal and interest, and, of course, on that part of the debt so liquidated interest ceases to be paid. The annual levy, which exactly covers both principal and interest, is the same throughout the history of the loan. It is, of course, mathematically determined beforehand. Bonds are issued maturing in one, two, three, etc., years, according to the length of the period for which the loan is made, instead of all being issued payable at the end of the term, as under the Sinking Fund plan.

(c) *Serial Instalment Method.* This method is very similar to the Annuity Instalment Method. It has, however, the advantage of liquidating the debt from year to year *in round* amounts instead of in odd amounts; (see illustration on pages 6 and 7), while it has the slight disadvantage of calling for a levy slightly differing in amount each year. This plan, of course, admits of the loan being redeemed in larger or smaller annual amounts, but the repayments on account of principal can be made to so closely follow those of the Annuity Instalment Method that the annual levy varies very slightly from year to year. The first two are authorized by the Ontario Municipal Act; the last, viz., Serial Instalment, is not, but its popularity among investors and financial houses is such that it is fully expected that the legislature will at its next session adopt the suggestion made last year,—that the Act be so amended that municipalities may use it as an alternative plan.

Methods Compared.

From the foregoing it will be gathered that both instalment methods of repayment in effect contain within themselves a sinking fund which bears the same rate of interest as the loan which it is intended to discharge; whereas the Sinking Fund Method necessitates the establishing of a separate sinking fund which is not calculated to earn (and in fact does not) as high a rate of interest as is payable upon the loan itself. What are the facts in the case of those municipalities which issue their bonds according to the sinking fund system? Loans are obtained by the issue of permanent debentures carrying interest ranging from 4½% to 5½%, while the sinking fund to redeem such loans is assumed to earn only from 3% to 4%, or from ½% to 2½% less, and, as a matter of fact, in many instances not much more than the assumed rate is earned.

In addition to this important difference between the rate of interest the municipality pays on its loans and that which the sinking fund, for their redemption, earns, considerable delay takes place in the investment of sinking fund moneys, and as a consequence a further loss in interest earnings inevitably ensues. In contrast to this, the genius of the instalment method is, that interest is being fully earned every day without exception.

ILLUSTRATION OF EACH METHOD.

Let it be assumed that a municipality proposes to issue bonds for some important permanent work for say $1,000,000, the loan to be repaid in 20 years and to carry interest at the rate of 5%, and the question arises as to which method is most economical and desirable.

Under the Sinking Fund Method the annual levy for interest would be $50,000, and for sinking fund (assuming 3% as the sinking fund rate) $37,215.71, a total annual levy of $87,215.71.

Under the Annuity Instalment Method the annual levy for repayment of principal and interest would be only $80,242.59, or $6,973.12 per annum less.

The present value of this annual saving for the life-time of the loan is $86,900.42, and this amount represents the actual saving to the municipality in issuing Annuity Instalment bonds instead of Sinking Fund Bonds.

Under the Serial Instalment Method, according to the illustration assumed, the annual levy would vary from $78,750 to $81,500 per annum, and the saving, therefore, would be practically the same as in the Annuity Instalment case.

The following tables, No. 1 illustrating the Annuity Instalment, and No. 2 illustrating the Serial Instalment Method of repayment, set forth in detail year by year, the gradual and systematic liquidation of the loan we have been considering.

Annuity Instalment, Table No. 1.

Table illustrating the repayment of a loan of $1,000,000, with interest at 5% per annum, in 20 years, according to *Annuity Instalment Method.*

End of	Annual Payment	Part used in payment of Interest	Principal	Balance of Principal at end of year
	80,242 59	Original Loan	..	$1,000,000.00
1st year.....	$80,242.59	$50,000.00	$30,242.59	969,757.41
2nd year....	80,242.59	48,487.87	31,754.72	938,002.69
3rd year....	80,242.59	48,900.14	33,342.45	904,660.24
4th year....	80,242.59	45,233.02	35,009.57	889,850.87
5th year....	80,242.59	43,482.54	38,780.05	832,890 62
6th year....	80,242.59	41,644.53	38,598.08	794,292.56
7th year...	80,242.59	39,714.83	40,527.96	753,784.80
8th year....	80,242.59	37,888.23	42,554.36	711,210.24
9th year....	80,242.59	35,580.52	44,682.07	888.528.17
10th year...	80,242.59	33,326.41	48,916.18	519,611.99
11th year..	80,242.59	30,980.60	49,261.99	570,350.00
12th year...	80,242.59	28,517.50	51,725.09	518,624 91
13th year...	80,242.59	25,931.25	54,311.34	464,313.57
14th year...	80,242.59	23,215.68	57,026.91	407,286.66
15th year...	80,242.59	20,364.34	59,878.25	347,408.41
16th year...	80,242.59	17,370.42	62,872.17	284,536.24
17th year...	80,242.59	14,226.81	66,015.78	218,520.45
18th year...	80,242.59	10,928.03	89,318.56	149,203,90
19th year...	80,242.59	7,460.20	72,782.39	78,421.51
20th year...	80,242.59	3,821.08	76,421.51	Deht pald off
	$1,604,851.80	$604,851.80	$1,000,000.00	

SERIAL INSTALMENT, TABLE NO. 2.

Table illustrating the repayment of a loan of $1,000,000, with interest at 5% per annum, in 20 years, according to *Serial Instalment Method.*

End of	Annual Payment	Part used in payment of Interest	Part used in payment of Principal	Balance of Principal at end of year
		Original Loan	..	$1,000,000
1st year.....	$81,000	$50,000	$31,000	969,000
2nd year....	80,450	48,450	32,000	937,000
3rd year....	79,850	46,850	33,000	904,000
4th year	79,200	45,200	34,000	870,000
5th year	79,500	43,500	36,000	834,000
5th year	79,700	41,700	38,000	796,000
7th year	79,800	39,800	40,000	756,000
8th year	79,800	37,800	42,000	714,000
9th year	79,700	35,700	44,000	670,000
10th year...	79,500	33,500	46,000	524,000
11th year...	80,200	31,200	49,000	575,000
12th year...	80,750	28,750	52,000	523,000
13th year.	81,150	26,150	55,000	468,000
14th year.	81,400	23,400	58,000	410,000
15th year.	81,500	20,500	61,000	349,000
16th year..	81,450	17,450	64,000	285,000
17th year..	81,250	14,250	67,000	218,000
18th year..	80,900	10,900	70,000	148,000
19th year..	80,400	7,400	73,000	75,000
20th year...	78,750	3,750	75,000	Debt paid off
	$1,606,250	$606,250	$1,000,000	

From the foregoing it will be observed that the aggregate moneys which the tax payers would be called upon to pay, during the twenty years, to discharge the $1,000,000 debt, according to the three methods would be as follows:—

(1) According to Sinking Fund Method	$1,744,314.20
(2) According to Annuity Instalment Method.	1,604,851.80
(3) According to Serial Instalment Method..	1,606,250.00

Effect on Debt.

By the Annuity or Serial Instalment Method the amount of the debt repaid each year is a definite quantity, and the bonds corresponding thereto are redeemed and cancelled. As a result, the net indebtedness of the municipality at any given time can be determined with accuracy. By the Sinking Fund Method the entire debt and the bonds representing it remain outstanding until the end of the period, and, through the Sinking Fund, the debt is then paid off. The yearly reduction of a debt of any enterprise unquestionably tends to create a much more favorable impression of its financial position than a stationary liability of many years' standing, although there is an increasing asset (the Sinking Fund) to offset it.

Elimination of Sinking Fund.

Both Instalment Methods, which provide for the repayment of the debt gradually from year to year as the annual taxes are received, do away with the necessity of establishing a Sinking Fund, the management and conduct of which are always fraught with difficulties, dangers and temptation. The misuse of, the low rate of interest earned on, the failure to efficiently manage, the expense and time involved in administration of and the losses involved in Sinking Funds are thoroughly well known to those versed in municipal finance. Undoubtedly the best Sinking Fund ever devised is the partial payment of the debt year by year.

Market Standpoint.

More and more is it becoming recognized that the Instalment Method of repaying loans is the safest, surest and most economical. Bond houses and important investors in bonds, here and in the United States, are showing a preference for issues so made payable. They then have absolute knowledge that the municipality is steadily improving its financial position by the annual reduction of its bonded liability. It is only necessary to mention that such cities as Chicago, New York, Boston, Philadelphia, etc., are issuing bonds in this form to indicate how general it is becoming.

Variety of Maturities.

It was formerly claimed that there was a limited market for instalment bonds, because investors preferred to have their investments mature at one period, some years distant. This objection has little weight in view of the fact that with such important issues as the larger municipalities will put out from time to time there will always be a choice of maturities, running from one to say 20 or 30 years, and that such variety will suit the varying needs of a greater body of investors.

Better Price Obtained.

It is confidently believed, based to an important extent upon the experience of first-class municipal loans, that municipalities adopting the instalment method would enhance their credit and prestige and consequently would be able to secure their loans, given equal market conditions, at lower rates of interest. In this connection the following statement, made a short time ago by Comptroller Prendergast, of New York, at the time of the sale of that city's bonds, is significant,—"I have no hesitation in saying that the element which produced the success of the sale was the offering of the $25,000,000 of serial bonds. This departure of the usual city bond offering (Sinking Fund) was very helpful in giving investors an opportunity to vary the form of their city holdings, and, I am certain, has proved very attractive."

Large Financial Saving.

I have examined the money by-laws of a number of our Ontario municipalities, passed in the year 1914, with the object of ascertaining the saving that would have been made if the bonds authorized had been issued on the Instalment Plan instead of on the Sinking Fund plan. In one municipality alone, which issues all of its bonds according to the Sinking Fund Method, I found that the annual levy for interest and Sinking Fund amounted to $863,050. If these bonds had been issued according to the Annuity Instalment Method the annual levy for interest and payment of debt would have amounted to only $818,180, or $44,870 per annum less than by the Sinking Fund Method. The present value of this excess annual charge for the life-time of the bonds amounts to $596,052. This last amount represents the actual loss to the citizens, as between the two methods, in respect to the bonds authorized for the single year of 1914. The municipality, of course, is a large one, but it will be found that the loss to the smaller municipalities, which are continuing to put out their bonds by the Sinking Fund Method, will be proportionately large, and approximately the same per capita.

The second matter to be discussed is,

2. Rate of Interest Which Loans Should Carry.

It is submitted that bonds issued from time to time should carry a rate of interest which is in harmony with market conditions. For some time past it has been the practice of some of our municipalities to make their issues at a set uniform rate of interest, as though it were a sacred matter to preserve such rate for all of its borrowings. As a rule, the rate so strenuously adhered to is materially less than the prevailing rate and not in keeping with that at which similar securities are bought to yield. The more correct view is, that bonds should be issued at such a rate that the municipality would be enabled to realize approximately par for its issues. The failure to recognize this principle has forced many of our municipalities to dispose of their bonds at heavy discounts.

Effect of Low Interest Rate.

One municipality, which has religiously issued its bonds for a considerable period at a 4½% interest rate, gets over the difficulty by increasing the amount to be borrowed over and above the actual cost of the works for which the loan is provided, to the extent of the expected discount that will have to be made when a sale is effected. An illustration of this is found by referring to a recent by-law of this municipality. The by-law stated that the actual cost of the works amounted to $1,460,000, while the debt incurred and the amount of bonds to be issued was set down at $1,586,612, or $126,612 more than the actual cost of the works. The reason given in the by-law for this large increase in debt over the actual cost of the work was, "To provide for the discount, if any, and the expense incidental to the negotiation and sale of the bonds." There is, of course, no expense incurred in connection with the sale of this municipality's bonds, inasmuch as they are sold by tender, and consequently the debt of the municipality was deliberately increased by $126,612 because it was known that at the rate of interest at which the loan was authorized the bonds could not be sold so as to realize par, or their face value.

MUNICIPALITY'S DEBT ADVERSELY AFFECTED.

The practice of selling bonds carrying a rate of interest materially less than the current rate for like securities has the effect of unduly swelling the municipality's debt. It is only necessary in this connection to consider the loan above referred to. If this loan had carried the normal rate of interest, a rate which would have enabled the municipality to dispose of its bonds at about par, the debt created would have been only $1,460,000, instead of $1,586,612. The increase in this particular debt amounted to not less than 8⅔%.

At a time when the debts of many of our municipalities are assuming large amounts, it is important that they should not be improperly inflated, and the municipality's financial position thus adversely represented. Moreover, when debts of the different municipalities are being closely scrutinized and compared by financial houses and investors, it is important, for the sake of their credit, that nothing should be done that would place them in a worse condition than that which they are entitled to occupy. It is well known that the more favorable the financial affairs of a municipality are, the more highly will its bonds be regarded and the higher will be the price which they will command.

In the municipality to which reference has been made it may be interesting to state that in the year 1914 its debt was increased by $752,000, or almost 7%, through discount on bonds issued at a rate of interest inconsistent with market conditions. This amount the city had not received or expended, and to that extent its debt was unwarrantably swollen.

MARKET EFFECT.

It might be thought that it would injuriously affect a municipality's credit in the investment market if its bonds were to be issued at a higher rate of interest than that which obtained in past times. There is absolutely no foundation for this view, as investors and financial houses recognize that governments and municipalities, like corporations and individuals, must be prepared to pay the current rate of interest for their loans. Justification for varying the interest rate is to be found in the practice of governments and important municipalities. They adopt the principle of putting out their loans at a low rate when money is cheap and a higher rate when money is dear. We have only to mention in this respect the action of such important borrowers as the British and Dominion Governments, the City of New York and the Province of Ontario. Great Britain and New York have increased their interest rate to

4½%, the Dominion of Canada to 5%, Ontario has effected loans within the past year at a 5% interest rate; moreover, is it not just as injurious to a municipality to have its bonds, on account of the low rate of interest which they carry, selling away below par, as it is to issue its securities carrying a higher rate of interest?

The third and last matter which I will refer to is, the

3. Administration of Sinking Funds.

While I have advocated the desirability of doing away with the issuing of new loans according to the Sinking Fund Method, a number of Ontario municipalities, about 125, having Sinking Funds for the redemption of their existing long-term bonds. The aggregate of these funds now amounts to approximately $26,000,000. Their administration entails considerable responsibility. Some have been administered with much care and skill; others, regrettable to say, have been grossly mismanaged. Let us consider for a few minutes some of the features associated with their administration.

Sinking Fund—A Trust Fund.

The Sinking Fund of a municipality is essentially a trust fund for the benefit of bondholders and citizens, and is universally recognized as such by all authorities. It is established and maintained for the one purpose, viz., the paying off of bonded debts as they mature from time to time. The fund is built up year by year from the taxes of the citizens and from interest accumulations, first, as a guarantee to the purchasers of the municipality's bonds that provision is being made for their prompt payment in full at maturity, and second, as an assurance to the tax payers that due provision is being made for the liquidation of the municipality's bonded indebtedness, as it falls due.

Purchasers of a municipality's bonds, as well as the tax payers of the municipality, are entitled to know that the Fund is being utilized solely for the purpose for which it was constituted, that it is being fully maintained and that it is being administered in the most efficient manner.

Sinking Fund Used As A Convenience.

In the past, the Sinking Funds of some of our municipalities have been utilized more or less as a convenience to meet their varying financial necessities. The bonds of the municipality itself have been sold to the Sinking Fund and resold by it, not because it was in the interest of the Fund, but because it was convenient for the municipality for the time being that such transactions should take place. This treatment of Sinking Fund moneys arises from lack of appreciation of the primary fundamental already referred to, viz., that the Fund is a sacred Trust, and that its administration should be governed in accordance with the well recognized principles of trusteeship.

The Investment of Sinking Fund Moneys.

The method of making investments on behalf of the Sinking Fund lies at the foundation of the Fund's successful administration. In many instances it has been a practice of the municipality to purchase with the Fund's money its own debentures at the uniform price of par, no matter what rate of interest the debentures carried, nor what their true market value at the time of investment might be. In one instance, where debentures have been issued over a course of years at 3½%, 4% and 4½%, and such debentures have been marketed at considerably below par, such debentures have been bought by the Sinking Fund at par, the Sinking Fund thus suffering to the extent of the difference between the artificial par value and the lower market value.

The aim, unquestionably, should be to make investments for the Sinking Fund, no matter whether it is in the municipality's own debentures or in those of other municipalities, on the most favorable terms possible for the Fund, just in the same way that a trustee would do who is charged with the management of an estate.

The volume of funds to be invested and reinvested from time to time on behalf of the Sinking Funds of the municipalities of this Province is such that there is no reason why securities should not be purchased for them on equally as favorable a basis as that which obtains in our important banking and financial houses. It is impossible to determine the extent of the loss which municipalities have already suffered in pursuing the policy referred to, but it is quite safe to say that it must run into the hundreds of thousands of dollars.

Sale of Securities Held by the Sinking Fund.

Sometimes, although the necessity should not arise frequently, sales of securities held by the Sinking Fund have to be made. The practice in such cases of some municipalities is to dispose of those investments held in their own debentures to the municipality itself, and when such is done, the municipality pays to the Sinking Fund the artificial value of par, no matter what the true market value of the security may be. This course may have resulted, on the average, in the Sinking Fund's ohtaining a higher price than the current one, hut if so, the municipality, on the other hand, has suffered. There is no necessity for a municipality, when purchasing securities from the Sinking Fund, to make a loss. The principle that should govern such sales is the same as that which has heen laid down in connection with purchases, viz., that where the necessity arises for the sale hy the Sinking Fund of securities held hy it, the hest current market price should he secured therefor.

As previously intimated, in the proper conduct of a Sinking Fund the necessity to sell investments which have heen carefully chosen will seldom arise, for the reason that purchases should he made in the light of permanent rather than temporary investments, and with due regard to the maturity date of the dehts which are to he redeemed therehy. The important sales of securities made to and hy the Sinking Fund of some municipalities in recent times would indicate that they have heen carried through more for some temporary expedient than in the sole interest of the Fund.

Purchase and Sales Should be Made on Best Possible Terms.

It might he thought that if the Sinking Fund huys the municipality's own dehentures at par, and, when the necessity arises to sell them, disposes of them also at par, the Fund does not materially suffer, in that it receives during the time the dehentures are held the rate of interest which the dehentures bear. This viewpoint is not only economically unsound, hut it must produce gross inconsistencies. Unquestionahly, it is the duty of the municipality to ohtain in the disposal of its own dehentures, whether to the Sinking Fund or to financial houses, the highest possihle price; on the other hand, it should he the aim of the Sinking Fund to purchase its investments on the most favorahle terms possihle. If these viewpoints are ignored, sometimes the municipality will suffer, while, at other times, the Sinking Fund. But it will be found that the Sinking Fund usually has been the greater sufferer, and that the Fund has frequently heen employed to take over the municipality's own securities at a much higher price than they were actually worth. This condition has no douht heen aggravated hy the fact that the same officers have occupied the illogical and anomalous positions of sellers and huyers at the same time of the municipality's own dehentures.

Interest Earned by Sinking Fund.

Having regard to the character of the investments which the moneys of the Sinking Fund may he invested in, and assuming that investments are made strictly in the Fund's interests, it will be realized that a much higher rate of interest than the assumed 3%, 3½%, or even 4% should be earned. If trustees were charged with the administration of the Fund they would be exceedingly derelict in the fulfilment of their trust if they were not able to show an earning power of at least 1% greater than the assumed rate. In the case of one important Sinking Fund, the average rate of interest earned was 3.65%. An improvement in this rate of only 1%, which is a conservative suggestion, would produce an annual additional revenue to that municipality of over $100,000. It should unquestionably be the earnest effort of those administering this important trust to realize the highest rate of interest compatible with the absolute security of the investment.

Prompt Investment of Moneys.

Investment of moneys belonging to the Fund should be made promptly and systematically. One of the basic essentials associated with every Sinking Fund is, that the moneys paid into it shall be earning interest at the earliest possible time.

Securities Should be in a Safe Depository.

All the securities of the Fund should be kept in a safe and convenient depository. Practically all the securities held will be payable to "Bearer." Where possible, they should be registered in the name of the municipality, but in some instances no provision may have been made for registration. Access to them should be properly safeguarded, in accordance with well recognized rules and regulations.

Yearly Report.

A yearly statement of the operations of the Fund should be made, embracing at least (1) a valuation to determine the mathematical sufficiency of the Fund, (2) receipts and disbursements of the year, (3) Profit and Loss Account, (4) a Balance Sheet, including in detail all securities, cash, etc., held in the Fund, and the exact amount standing to the credit of each issue of Sinking Fund Debentures.

I have no hesitation whatever in saying that if such a course were followed, a municipality's securities when offered for sale would be more highly regarded by investors and financial houses, and, consequently, would command a higher price. (The obtaining of an additional one point in the sale of one municipality's securities for one year would represent a saving of more than $100,000). Moreover, if such reports as those referred to were available, the tax payer would be enabled to get an intelligent conception of the object and status of the Fund and thoroughly appreciate its functions. At the present time, owing, it is believed, to the meagre information available of the operation of municipal Sinking Funds, the tax payer has a very superficial knowledge of what the Fund is intended to do, and what its true position is. The whole subject is more or less shrouded in mystery and suspicion, and I am convinced that this condition is chiefly due to the failure to present the whole facts to the tax payer in a simple and concise form from year to year.

In conclusion, let me repeat that in my humble judgment there is no branch of municipal finance in which officials, boards of control, councils and tax payers should be more concerned and informed about than that which treats with the method of the repayment of debts, the rate of interest which these debts should carry and the proper administration of Sinking Funds. The fact that the municipal debts of this Province now aggregate, approximately, $175,000,000, that these debts run in many cases for a great number of years, and that time and interest are most potent factors, it is submitted that practices which are now regarded as uneconomical and obsolete should be revised and give way to those which are the most efficient, the most effective and the most economical.

The present Ontario Municipal Act has given much satisfaction and, generally speaking, it is highly regarded. It will, however, be recognized that changing conditions and new light on old problems will suggest from time to time amendments, and it is, therefore, believed that the following matters, among others, are worthy of consideration when the Act is under revision, which no doubt it will be at the next Session of the Legislature:—

1. Limitation of the borrowing powers of municipalities.
2. Improvement in the method of repayment of loans.
3. Prohibiting the raising of loans by way of permanent bonds to liquidate discount on bonds sold.
4. Prohibiting the sale of bonds at an abnormal discount.
5. Providing that the Provincial Municipal Department shall lay down rules for the administration of sinking funds; that the proper officer shall be required to see that such rules are adhered to and carried out; that the funds are efficiently administered, that they are properly invested and are sufficient to liquidate the debts for which they are being accumulated.