

# The Corporation of the City of Kawartha Lakes

## Council Report

Report Number CORP2017-010

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**Date:** April 18, 2017

**Time:** 2:00 p.m.

**Place:** Council Chambers

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**Ward Community Identifier:** All

**Subject:** Financial Management Policy

**Author/Title:** Mary-Anne Dempster

**Signature:** 

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### Recommendation(s):

**RESOLVED THAT** Report CORP2017-010, **Financial Management Policy**, be received; and

**THAT** the policy entitled **Financial Management Policy** appended to Report CORP2017-010 be adopted, numbered and inserted in the Corporate Policy and Procedures Manual; and

**THAT** the following policies and appended forms be rescinded and removed from the policy manual:

C087 FD 009 Investment Policy - Revised

117 FD 012 Debt Management Policy

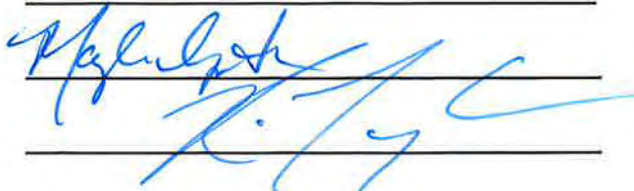
C170 FIN 015 Water and Wastewater User Rate Management Policy

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**Department Head:**

**Corporate Services Director / Other:**

**Chief Administrative Officer:**



## **Background:**

At the February 2, 2017 Executive Committee, the CAO and Director of Corporate Services requested a Council Committee be established to review the existing Council Financial Policies. The Committee was established with Councillor Dunn appointed as Chair and Councillor Elmslie, Councillor Junkin and Councillor Pollard were appointed as Committee members. The Committee commenced meetings on February 21, 2017.

On March 21, 2017 the Committee reviewed the attached Policy and Management Directive and recommended forwarding the Policy to Executive Committee for support.

The Executive Committee provided support and a recommendation to forward the Policy to Council for consideration on April 6, 2017. This report is in support of the proposed Financial Management Policy, which combines the three existing policies recommended to be rescinded.

## **Rationale:**

The attached Policy is a consolidation of policies related to Financial Management with respect to investments and debt.

Currently the City has three policies to govern this activity, however, upon review the three policies were combined into one policy and a corresponding management directive. The new Policy does not contain any major changes outside of minor language changes. The only change is dividing the content of the existing policies between the proposed Policy and associated Management Directive. The two new documents have been developed in accordance with the Council adopted Policy Structure Policy.

The Policy sets Council's expectation with respect to financial management practices of investment and debt. The Management Directive is approved by the CAO once the Policy is adopted by Council. The Management Directive lays out the operational requirements to meet Council's expectations. For illustration purposes only we have attached the Management Directive.

The Municipal Act and other governing legislation provides very detailed expectations around investment of public funds, the Policy and Management Directive reiterates these expectations. With respect to debt management, this activity is also governed by legislation. Council determines the self-imposed debt ceiling which, at this time, is much lower than the level calculated by the Province.

Consolidation of the policies into one document provides clear direction.

**Other Alternatives Considered:**

Not applicable

**Financial Considerations:**

Not applicable

**Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:**

This report is in alignment with the City's strategic plan with respect to Responsible Fiscal Resource Management.

**Review of Accessibility Implications of Any Development or Policy:**

Not applicable

**Servicing Comments:**

Not applicable

**Consultations:**

Council Appointed Financial Policy Review Committee  
Executive Committee

**Attachments:**

Recommended Policy



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Management Policy.d Management Directiv

Policies to be Removed from the Policy Manual



087 FD 009

Investment Policy Re



117 FD 012 Debt

Management Policy.d

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**Phone:** 705 324 9411 x1274

**E-Mail:** mdempster@city.kawarthalakes.on.ca

**Department Head:** Mary-Anne Dempster

**Department File:**

|   |                                |
|---|--------------------------------|
| Council Policy #:                                 |                                |
| Council Policy Name:                              | Financial Management Policy    |
| Date Approved by Council:                         |                                |
| Date revision approved by Council:                |                                |
| Related SOP, Management Directive, Council Policy | Financial Management Directive |

## Policy Statement and Rationale:

The Corporation of the City of Kawartha Lakes is committed to providing the effective and efficient use of financial resources to ensure that financial assets are safeguarded from loss, used to generate the highest rate of return and that practices around securing debt instruments provide the best financing terms available for the Municipality.

## Scope:

This policy will apply to all City Employees responsible for the control, administration and management of the Corporation's surplus funds, investment portfolio and debt management.

## Definitions:

**Diversification:** a process of investing assets among a range of security types by sector,

**Liquidity:** a measure of an asset's convertibility to cash.

**Market Value:** current market price of a security.

**Prudent Person Rule:** an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

**Safekeeping:** holding of assets (e.g., securities) by a financial institution.

## 1.0 General Principles:

- 1.1 The objectives of the Investment Program shall ensure adherence to statutory requirements; Preservation of capital; maintaining liquidity; and earning a competitive rate of return.
- 1.2 All investment activities shall be governed by the Municipal Act as amended.
- 1.3 Investments will be those deemed eligible under Provincial legislation.
- 1.4 Investing activities shall be made with judgement and care and follow the Prudent Person Rule.

- 1.5 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.
- 1.6 An annual investment report shall be submitted to Council.
- 1.7 The Investment portfolio shall obtain a market average rate of return consistent with the investment practices of the City and applicable legislation.
- 1.8 The market value of the portfolio shall be calculated on an annual basis.
- 1.9 All securities shall be held for safekeeping by a financial institution approved by the City.

## 2.0 Investments

- 2.1 The eligible investments include investments for the General Fund, Reserve Fund, Trust Fund, and the Legacy C.H.E.S.T.
- 2.2 The municipality may only invest in financial instruments as defined by the governing Ontario legislation:
- 2.3 The investments shall be diversified by:
  - Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
  - Limiting investment in securities to those that have higher credit ratings;
  - Investing in securities with varying maturities; and
  - Investing in mainly liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

## 3.0 Legislated Debt Capacity

- 3.1 The annual debt and financial obligation limit for municipalities is prescribed under the Municipal Act.
- 3.2 The regulation provides a formula which limits annual repayment obligations to an amount equal to 25% of net revenue.
- 3.3 Council shall set debt ceiling thresholds for both tax support and water and wastewater debt.
- 3.4 The debt ceiling thresholds shall not exceed the annual repayment limit calculated based on provincial legislative requirements.
- 3.5 The term "tax supported debt" refers to debt incurred for capital projects for which annual principal and interest payments are funded from the general tax levy
- 3.6 The term "Water and Wastewater User Rate supported debt" refers to debt incurred for capital projects for which annual principal and interest payments are funded from the Water and Wastewater operating budget.

## 4.0 Responsibilities

- 4.1 Council is responsible to establish the City's philosophy through this policy.
- 4.2 The Chief Administrative Officer is accountable to approve the detailed management directives that establish the operational framework.

- 4.3 Corporate Services is responsible to ensure that the City's Policy and Management Directive are adhered to.

**Revision History:**

| Revision | Date | Description of changes | Requested By |
|----------|------|------------------------|--------------|
|          |      |                        |              |
|          |      |                        |              |
|          |      |                        |              |

# Management Directive

|   |                                |
|---|--------------------------------|
| Management Directive #:                             |                                |
| Management Directive Name:                          | Financial Management Directive |
| Date Approved by CAO or Designated Person:          |                                |
| Date revision approved by CAO or Designated Person: |                                |
| Related SOP, Management Directive, Council Policy   | Financial Management Policy    |

## Directive Statement and Rationale:

The Financial Management Directive has been established to provide the framework of expectations to provide guidance and direction to City staff to fulfill the operational requirements.

## Scope:

This management directive will apply to all City Employees responsible for the control, administration and management of the Corporation's surplus funds, investment portfolio and debt management.

## Management Directive:

### Preservation of Capital

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Staff shall endeavour to mitigate credit and interest rate risk as follows:

#### Credit Risk:

- Limiting investments to safer types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City does business subject to the Director of Finance/Treasurer's approval; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

# Management Directive

## Interest Rate Risk:

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities or approved investment pools; and
- Diversifying longer-term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility.

## Maintaining Liquidity

- The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and limit temporary borrowing requirements.
- The portfolio shall be structured to ensure securities mature concurrent with anticipated cash demands.
- The portfolio shall consist largely of securities with active secondary or resale markets.
- A portion of the portfolio may be placed in local government investment pools which offer liquidity for short-term funds.

## Competitive Rate of Return

- The City shall maximize the rate of return earned on its portfolio within the prescribed guidelines.
- The Investment portfolio must be diversified to ensure safety of principal by limiting exposure to credit, sector or term risks.

## Standard of Care

- Investments shall be made with judgement and care
- Investment officers acting in accordance with written policy, management directives and procedures exercising due diligence, shall be relieved of personal responsibility for an individual security credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the policy and management directive.
- Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.
- Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business.



# Management Directive

## Eligible Investments

Are those investments specifically defined in Ontario Regulation 438/97 of the Municipal Act, 2001:

- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by,
  - (a) Canada or a province or territory of Canada
  - (b) An agency of Canada or a province or territory of Canada
  - (c) A country other than Canada (if the debt is rated by Dominion Bond Rating as "AA(low)" or higher; by Fitch Ratings as "AA-" or higher; by Moody's as "Aa3" or higher;; or by Standard & Poor as "AA-" or higher)
  - (d) A municipality in Canada including the City of Kawartha Lakes
  - (e) The Ontario Strategic Infrastructure Financing Authority,
  - (f) A school board or similar entity in Canada, providing funds are used for school purposes
  - (g) A university in Ontario that is authorized to engage in an activity described in section 3 of the Post-secondary Education Choice and Excellence Act, 2000,
  - (h) the board of governors of a college established under the Ontario Colleges of Applied Arts and Technology Act, 2002,
  - (i) A local board as defined in the Municipal Affairs Act (but not including a school board or a municipality) or a conservation authority established under the Conservation Authorities Act,
  - (j) A board of a public hospital within the meaning of the Public Hospitals Act,
  - (k) A non-profit housing corporation incorporated under section 13 of the Housing Development Act,
  - (l) A local housing corporation as defined in section 2 of the Social Housing Reform Act, 2000, or
  - (m) The Municipal Finance Authority of British Columbia.
- Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if,
  - (a) the bond, debenture or other evidence of indebtedness is secured by the assignment, to a trustee, as defined in the Trustee Act, of payments that Canada or a province or territory of Canada has agreed to make or is required to make under a federal, provincial or territorial statute, and
  - (b) the payments referred to in subparagraph i are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity.

# Management Directive

- Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid no later than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
  - (a) A bank listed in Schedule I, II or III to the Bank Act (Canada),
  - (b) A loan corporation or trust corporation registered under the Loan and Trust Corporations Act, or
  - (c) a credit union or league to which the Credit Unions and Caisses Populaires Act, 1994 applies.
- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by an institution (if the debt is rated by Dominion Bond Rating as "AA(low)" or higher; by Fitch Ratings as "AA-" or higher; by Moody's as "Aa3" or higher; or by Standard & Poor as "AA-" or higher)
- Short term securities, the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, that are issued by,
  - (a) A university in Ontario that is authorized to engage in an activity described in section 3 of the Post-secondary Education Choice and Excellence Act, 2000,
  - (b) the board of governors of a college established under the Ontario Colleges of Applied Arts and Technology Act, 2002, or
  - (c) A board of a public hospital within the meaning of the Public Hospitals Act.
- Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development.
- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development.
- Asset-backed securities, as defined in subsection 50 (1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the Loan and Trust Corporations Act.
- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date on which the municipality makes the investment.
- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than one year and no later than five years after the date on which the municipality makes the investment.

## Management Directive

- Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the Electricity Act, 1998.
- Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if the municipality first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose.
- Securities of a corporation, (other than bonds, debentures, promissory notes or other evidence of indebtedness of a corporation), if the municipality first acquires the securities as a gift in a will and the gift is not made for a charitable purpose.
- Shares of a corporation if:
  - (a) The corporation has a debt payable to the municipality,
  - (b) Under a court order, the corporation has received protection from its creditors,
  - (c) The acquisition of the shares in lieu of the debt is authorized by the court order, and
  - (d) The treasurer of the municipality is of the opinion that the debt will be uncollectible by the municipality unless the debt is converted to shares under the court order.

The following investments also qualify if purchased through the "ONE Fund" paper providing the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing Corporation to act together as the municipality's agent for the investment in that security, promissory note or commercial paper:

- Commercial paper
- Asset-backed securities;
- Negotiable promissory notes or commercial paper maturing not more than one year from date of issue issued by a Canadian corporation.

### Diversification

- In order to promote diversification in the City's portfolio holdings, percentage weightings for class and type of securities shall be established and maintained.
- The City shall match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow

# Management Directive

- The City will not directly invest in securities maturing more than ten (10) years from the date of purchase.
- Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds.
- The City shall adopt weighted average maturity limitations consistent with investment objectives.
- The City shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity.

## Performance Benchmarks

- Short-term funds will be compared to the return on the three months Government of Canada Treasury Bills
- Long-term funds will be compared to Scotia McLeod's All Government Short Term Bond Index

## Safekeeping and Custody

- Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the City
- The depository shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information.
- On a monthly basis, the depository will also provide reports which list all securities held for the City, the book value of holdings and the market value as of month-end.

## Council Reporting

- The Director of Corporate Services and Treasurer shall submit the annual investment report to Council.
- The report shall include:
  - A management summary
  - Affirmation that investment activities during the reporting period have conformed to the investment policy and management directive.
  - Listing of individual securities held at the end of the reporting period.
  - Realized and unrealized gains or losses resulting from appreciation or depreciation.
  - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
  - Listing of investment by maturity date.
  - Percentage of the total portfolio which each type of investment represents; Allocation between short and long-term securities

## Management Directive

- A statement about the performance of the investment portfolio during the period.
- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report
- The Treasurer is to report when an investment is inconsistent with the adopted investment policy within 30 days from the time he or she learns of it.

### Responsibility

- The Treasurer has overall responsibility for the prudent investment of the City's portfolio.
- The Treasurer is responsible for the implementation of the investment program and the establishment of investment procedures consistent with policy and management directive.
- No person may engage in an investment transaction except as provided under the terms of the policy and management directive.
- The Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials who may be delegated certain investment responsibilities.
- The Treasurer is responsible to:
  - Enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.
  - Execute and sign documents relevant to the investment and cash management program on behalf of the corporation and performs all other related acts in the day-to-day operation of the investment and cash management program.
  - Develop and maintain operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments are properly managed and adequately protected.
  - Advice on adequate insurance coverage required to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets.

### Debt Management

- Debt is a viable option for financing the acquisition or construction of an asset which is used to deliver municipal services provided the following conditions exist:
  - The estimated useful life of the asset is greater than ten years.
  - The size of the project is significant
  - Funding cannot be accommodated within the tax supported capital benchmark

# Management Directive

- There are no other viable sources of funding such as special purpose reserves or grants from senior levels of government
- There is adequate debt capacity available to borrow.
- A target ratio of 1.0 to 1.0 for tax supported debt to general purpose reserves is the Municipalities goal.

## Records Retention

Treasury is responsible for the collection, retention and proper storage of all financial records in accordance with all applicable legislation and city by-laws and shall work in consultation with the City Clerk's Office to ensure all *Municipal Freedom of Information and Protection of Privacy Act* rules are met.

## Revision History:

| Revision | Date | Description of changes | Requested By |
|----------|------|------------------------|--------------|
|          |      |                        |              |
|          |      |                        |              |

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|---|--|
|  | <h2 style="margin: 0;">CORPORATE POLICY AND<br/>PROCEDURES MANUAL</h2> |
|---|--|

|   |   |         |    |     |
|---|---|---------|----|-----|
|   | Policy No:  |         |    |     |
|   | <table border="1" style="width: 100%;"> <tr> <td style="width: 33%; text-align: center;">C - 087</td> <td style="width: 33%; text-align: center;">FD</td> <td style="width: 33%; text-align: center;">009</td> </tr> </table> | C - 087 | FD | 009 |
| C - 087   | FD  | 009     |    |     |
| <b>Policy Name:</b><br><b>Investment Policy - Revised</b> |   |         |    |     |

|                           |                                      |                   |               |
|---------------------------|--------------------------------------|-------------------|---------------|
| <b>DEVELOPED BY:</b>      | Sandra Shorkey                       | <b>DATE:</b>      | June 18, 2007 |
| <b>DEPARTMENT:</b>        | Finance                              |                   |               |
| <b>REVIEWED BY:</b>       | Corporate & Human Resource Committee | <b>DATE:</b>      | July 9/07     |
| <b>APPROVED BY:</b>       | Council                              | <b>DATE:</b>      | July 17/07    |
| <b>RESOLUTION NUMBER:</b> | CHR2007-092<br>CR2007-695            | <b>EFFECTIVE:</b> |               |
| <b>CROSS-REFERENCE:</b>   |                                      | <b>REVISIONS:</b> |               |

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### **POLICY STATEMENT AND RATIONALE:**

It is understood that the policy and procedures herein shall govern the investment activities of the City of Kawartha Lakes "City" General, Capital and Reserve Funds.

### **SCOPE:**

This policy will apply to all City Employees responsible for the control, administration and management of the Corporation's surplus funds and investment portfolio.

This policy will ensure the prudent management of the City's surplus funds and investment portfolio.

### **DEFINITIONS:**

**Asset Backed Securities:** fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

**Credit Risk:** the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Diversification:** a process of investing assets among a range of security types by sector, maturity, and quality rating.

**Duration:** a measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**Interest Rate Risk:** the risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Investment-grade Obligations:** an investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

**Liquidity:** a measure of an asset's convertibility to cash.

**Local Authorities Service Limited:** entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest.

**Market Risk:** the risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value:** current market price of a security.

**Maturity:** the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity".

**Prudent Person Rule:** an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

**Qualifying Assets:** financial assets, either fixed or revolving, that by their terms converts into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

**Safekeeping:** holding of assets (e.g., securities) by a financial institution.

**Weighted Average Maturity (WAM):** the average maturity of all the securities that comprise a portfolio.

## **POLICY, PROCEDURE AND IMPLEMENTATION:**

### **1.0 Investment Objectives**

The primary objectives of the Investment Program, in priority order, shall be:

- Adherence to statutory requirements;
  - Preservation of capital;
  - Maintaining liquidity; and
  - Earning a competitive rate of return.
- 
- **Adherence to Statutory Requirements :**

All investment activities shall be governed by the Municipal Act as amended. Investments, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.



## **Preservation of Capital**

Safety of principal is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Staff shall endeavour to mitigate credit and interest rate risk as follows:

- **Credit Risk:**
  - Limiting investments to safer types of securities ;
  - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City does business subject to the Director of Finance/Treasurer's approval; and
  - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- **Interest Rate Risk:**
  - Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;
  - Investing operating funds primarily in shorter-term securities or approved investment pools; and
  - Diversifying longer-term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility.

## **Maintaining Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in local government investment pools which offer liquidity for short-term funds.

## **Competitive Rate of Return**

Without compromising other objectives, the City shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions

Diversification, as well as ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment returns of the City's portfolio by means of prudent and timely adjustments to asset mix.

## 2.0 Standard of Care

- **Prudence**

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment officers acting in accordance with written procedure and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this Policy.

- **Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

- **Delegation of Authority**

The Director of Finance/Treasurer has overall responsibility for the prudent investment of the City's portfolio. He/she is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and any procedures defined by the Director of Finance/Treasurer. The Director of Finance/Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials who may be delegated certain investment responsibilities.

## 3.0 Eligible Investments

The eligible investments include investments for the General Fund, Reserve Fund, Trust Fund, and the Legacy C.H.E.S.T.

The following are securities that a municipality may invest in as defined in Ontario Regulation 438/97 of the Municipal Act, 2001:

- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by,
  - (a) ~~Canada or a province or territory of Canada~~ - - - - -
  - (b) an agency of Canada or a province or territory of Canada
  - (c) a country other than Canada (if the debt is rated by Dominion Bond Rating as "AA(low)" or higher; by Fitch Ratings as "AA-" or higher; by Moody's as "Aa3" or higher,; or by Standard & Poor as "AA-" or higher)
  - (d) a municipality in Canada including the City of Kawartha Lakes

- (e) the Ontario Strategic Infrastructure Financing Authority,
  - (f) a school board or similar entity in Canada, providing funds are used for school purposes
  - (g) a university in Ontario that is authorized to engage in an activity described in section 3 of the Post-secondary Education Choice and Excellence Act, 2000,
  - (h) the board of governors of a college established under the Ontario Colleges of Applied Arts and Technology Act, 2002,
  - (i) a local board as defined in the Municipal Affairs Act (but not including a school board or a municipality) or a conservation authority established under the Conservation Authorities Act,
  - (j) a board of a public hospital within the meaning of the Public Hospitals Act,
  - (k) a non-profit housing corporation incorporated under section 13 of the Housing Development Act,
  - (l) a local housing corporation as defined in section 2 of the Social Housing Reform Act, 2000, or
  - (m) the Municipal Finance Authority of British Columbia.
- Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if,
    - (a) the bond, debenture or other evidence of indebtedness is secured by the assignment, to a trustee, as defined in the Trustee Act, of payments that Canada or a province or territory of Canada has agreed to make or is required to make under a federal, provincial or territorial statute, and
    - (b) the payments referred to in subparagraph i are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity.
  - Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid no later than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
    - (a) a bank listed in Schedule I, II or III to the Bank Act (Canada),
    - (b) a loan corporation or trust corporation registered under the Loan and Trust Corporations Act, or
    - (c) a credit union or league to which the Credit Unions and Caisses Populaires Act, 1994 applies.
  - Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by an institution (if the debt is rated by Dominion Bond Rating as "AA(low)" or higher; by Fitch Ratings as "AA-" or higher; by Moody's as "Aa3" or higher; or by Standard & Poor as "AA-" or higher)
  - Short term securities, the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, that are issued by,
    - (a) a university in Ontario that is authorized to engage in an activity described in section 3 of the Post-secondary Education Choice and Excellence Act, 2000,
    - (b) the board of governors of a college established under the Ontario Colleges of Applied Arts and Technology Act, 2002, or
    - (c) a board of a public hospital within the meaning of the Public Hospitals Act.
  - Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development.

- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development.
- Asset-backed securities, as defined in subsection 50 (1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the Loan and Trust Corporations Act.
- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date on which the municipality makes the investment.
- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than one year and no later than five years after the date on which the municipality makes the investment.
- Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the Electricity Act, 1998.
- Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if the municipality first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose.
- Securities of a corporation, (other than bonds, debentures, promissory notes or other evidence of indebtedness of a corporation), if the municipality first acquires the securities as a gift in a will and the gift is not made for a charitable purpose.
- Shares of a corporation if:
  - (a) the corporation has a debt payable to the municipality,
  - (b) under a court order, the corporation has received protection from its creditors,
  - (c) the acquisition of the shares in lieu of the debt is authorized by the court order, and
  - (d) the treasurer of the municipality is of the opinion that the debt will be uncollectible by the municipality unless the debt is converted to shares under the court order.

The following investments also qualify if purchased through the "ONE Fund" paper providing the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing Corporation to act together as the municipality's agent for the investment in that security, promissory note or commercial paper

- Commercial paper
- Asset-backed securities;
- Negotiable promissory notes or commercial paper maturing not more than one year from date of issue issued by a Canadian corporation. .....

All authorized investments must meet or exceed the minimum credit ratings as detailed in columns b and c of Appendix 1 to this paper and are to be used in conjunction with the sector limitations noted in the Investment Parameters section of this Policy.

## 4.0 Investment Parameters

The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
- Limiting investment in securities to those that have higher credit ratings;
- Investing in securities with varying maturities; and
- Investing in mainly liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In order to promote diversification in the City's portfolio holdings, percentage weightings for class and type of securities shall be established and maintained. Column "d" of Appendix 1 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. Column "e" of Appendix 1 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio.

Furthermore, to the extent possible, the City shall match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than ten (10) years from the date of purchase. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding ten (10) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. Column "f" of Appendix 1 sets out the maximum term limit for each investment class and issuer.

The City shall adopt weighted average maturity limitations consistent with investment objectives. The City shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity. Appendix 2 sets out minimum and maximum term exposures in order to ensure liquidity requirements are maintained.

## 5.0 Reporting Requirements

### • Reports to Council

The Director of Finance/Treasurer shall submit an investment report for Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- Listing of individual securities held at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements);
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;
- Listing of investment by maturity date;
- Percentage of the total portfolio which each type of investment represents; Allocation between short and long-term securities
- A statement about the performance of the investment portfolio during the period covered by the report (section 8-2(a) of Ontario Regulation 438/97);
- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report (section 8-2(b) of Ontario Regulation 438/97);

- A statement by the Director of Finance/Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the City (section 8-2(c) of Ontario Regulation 438/97);
- A record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security (section 8-2(d) of Ontario Regulation 438/97);
- Such other information that the Council may require or that, in the opinion of the Director of Finance/Treasurer, should be included (section 8-2(e) of Ontario Regulation 438/97);

The Treasurer is to report when an investment is inconsistent with the adopted investment policy within 30 days from the time he or she learns of it (section 8-1 of Ontario Regulation 438/97).

#### • **Performance Benchmarks**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City. Short-term funds will be compared to the return on the three months Government of Canada Treasury Bills and the One Fund's Money Market Fund. Long-term funds will be compared to Scotia McLeod's All Government Short Term Bond Index and One Fund's Bond Fund.

#### • **Marking to Market**

The market value of the portfolio shall be calculated at least annually. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to Market Practices for Local Government Investment Portfolios and Investment Pools."

### **6.0 Safekeeping and Custody**

*All securities shall be held for safekeeping by a financial institution approved by the City. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the City*

The depository shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the City, the book value of holdings and the market value as of month-end.

### **7.0 Responsibilities:**

The Director of Finance/Treasurer or his/her designate is delegated the following responsibilities:

- Enters into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities
- Executes and sign documents relevant to the investment and cash management program on behalf of the corporation and performs all other related acts in the day-to-day operation of the investment and cash management program
- Develops and maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments are properly managed and adequately protected
- Advises on adequate insurance coverage required to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets

## **REFERENCE:**

Section 418 of the Municipal Act  
Ontario Regulation 438/97  
Ontario Regulation 265/02  
Ontario Regulation 399/02  
Ontario Regulation 265/02  
Ontario Regulation 653/05  
Ontario Regulation 655/05  
Ontario Regulation 607/06  
Ontario Regulation 39/07  
City of Barrie Investment Policy

| APPENDIX 1 - AUTHORIZED INVESTMENTS AND SECTOR LIMITATIONS |                             |                           |  |                     |  |
|--|-----------------------------|---------------------------|--|---------------------|--|
|  | Minimum<br>Credit<br>Rating | Money<br>Market<br>Rating | Sector/Credit Exposure<br>Limitation (maximum) |                     | Sector Term<br>Limitation<br>(Maximum) |
|  |                             |                           | Portfolio<br>Limit                             | Individual<br>Limit |  |
| (a)  | (b)                         | (c)                       | (d)  | (e)                 | (f)                                    |
| <b>Federal</b>   |                             |                           |  |                     |  |
| Canada   | N/A                         | R1 High                   | 100%   | 100%                | 20 years                               |
| Federal Guarantees   | N/A                         | R1 High                   | 50%  | 25%                 | 20 years                               |
| <b>Federal Total</b>                                       |                             |                           | <b>100%</b>                                    |                     |  |
| <b>Provincial</b>  |                             |                           |  |                     |  |
|  | AA                          | R1 mid                    | 50%  | 25%                 | 20 years                               |
|  | A                           | R1 mid                    | 20%  | 10%                 | 10 years                               |
|  | BBB                         | R1 mid                    | 10%  | 5%                  | 5 years                                |
| <b>Provincial Total</b>                                    |                             |                           | <b>80%</b>                                     |                     |  |
| <b>Municipalities<br/>and School Boards</b>                |                             |                           |  |                     |  |
|  | AAA                         |                           | 25%  | 5%                  | 10 years                               |
|  | AA                          |                           | 15%  | 5%                  | 10 years                               |
|  | A                           |                           | 10%  | 2%                  | 5 years                                |
| <b>Municipal Total</b>                                     |                             |                           | <b>35%</b>                                     |                     |  |
| <b>Banks</b>   |                             |                           |  |                     |  |
| <b>Schedule 1 Banks</b>                                    |                             |                           |  |                     |  |
|  | AA(L)                       | R1 mid                    | 75%  | 25%                 | 1 year                                 |
|  | AA(L)                       | R1 mid                    | 10%  | 5%                  | 5 years                                |
|  | A                           | R1 low                    | 20%  |                     | 6 months                               |
| <b>Schedule 2 Banks</b>                                    |                             |                           |  |                     |  |
|  |                             | R1 high                   | 15%  | 5%                  | 6 months                               |
|  |                             | R1 mid                    | 10%  | 3%                  | 6 months                               |
| <b>Bank Total</b>  |                             |                           | <b>80%</b>                                     |                     |  |
| <b>Purchased through "One Fund"</b>                        |                             |                           |  |                     |  |
| <b>Asset Backed<br/>Securities</b>                         | AAA                         |                           | 20%  | 5%                  | 5 years                                |
| <b>Commercial Paper</b>                                    |                             | R1 high                   | 15%  | 5%                  | 1 year                                 |
|  |                             | R1 mid                    | 10%  | 2%                  | 6 months                               |
| <b>Commercial Total</b>                                    |                             |                           | <b>20%</b>                                     |                     |  |

**Additional Notes**

1. Exposure percentage limitations are to be applied to the par value of the total portfolio
2. Provincial investments include provincial guarantees

**APPENDIX 2 - PORTFOLIO TERM LIMITATIONS**

| Term Limitation                                | Percentage |         |
|--|------------|---------|
|  | Minimum    | Maximum |
| Less than 90 days                              | 20%        | 100%    |
| Less than 1 year                               | 30%        | 100%    |
| From 1 year up to, but not including 5 years   | 0%         | 60%     |
| From 5 years up to, but not including 10 years | 0%         | 40%     |
| From 10 years up to 20 years                   | 0%         | 20%     |

**Other Restrictions:**

- 1) Term is limited to an individual maximum of 20 years and a weighted average term of 4 years for the whole portfolio
- 2) Investments for terms in excess of 1 year are restricted to any of the Canadian Federal, Provincial and Municipal governments, the top 5 Canadian Schedule 1 Asset backed securities (acquired through ONE funds); and institutions by the aforementioned, subject to the credit rating limitation set out on Appendix 1.



## **CORPORATE POLICY AND PROCEDURES MANUAL**

Policy No:

**117**

**FD**

**012**

Policy Name:

**Debt Management Policy**

**DEVELOPED BY:** Sara Beukeboom  
**DEPARTMENT:** Finance  
**REVIEWED BY:** Directors  
**ADOPTED BY:** Council

**DATE:** July 2005

**DATE:**

**DATE:** Aug 23/05

**RESOLUTION NUMBER:** CR2005-755  
CHR2005-156

**EFFECTIVE:** Aug 23/05

**CROSS-REFERENCE:**

**REVISIONS:**

### **POLICY STATEMENT AND RATIONALE:**

Excessive use of debt to finance capital works can seriously impair the ability of a municipality to provide the level of service that residents expect. Because of this potential it is important to establish well thought out guidelines for debt to be used in the context of long term capital planning and budgeting.

### **SCOPE:**

This policy is intended to establish parameters around the use of tax supported long term debt to finance capital works.

### **DEFINITIONS:**

The term "tax supported debt" refers to debt for which annual principal and interest payments are funded from the general tax levy.

### **POLICY, PROCEDURE AND IMPLEMENTATION:**

#### **1. WHEN DEBT IS APPROPRIATE**

**1.1.** Debt is a viable option for financing the acquisition or construction of an asset which is used to deliver municipal services provided the following conditions exist:

- 1.1.1. The estimated useful life of the asset is greater than ten years;
- 1.1.2. The size of the project is significant;
- 1.1.3. Funding cannot be accommodated within the tax supported capital benchmark;

1.1.4. There are no other viable sources of funding such as special purpose reserves or grants from senior levels of government;

1.1.5. There is adequate debt capacity available to borrow.

## **2. LEGISLATED DEBT CAPACITY**

**2.1.** The annual debt and financial obligation limit for municipalities is described under Ontario Regulation 403/02.

**2.2.** The regulation provides a formula which limits annual repayment obligations to an amount equal to 25% of revenue fund revenues.

**2.3.** In the fiscal year 2004, interest and principal repayments totaled approximately one third of available legislated capacity.

**2.4.** Council is not authorized to issue debt which would result in the annual repayment limit being exceeded.

## **3. CRITERIA TO LIMIT THE ISSUE OF TAX SUPPORTED DEBT**

**3.1.** Notwithstanding the limits prescribed in the regulations, prudent financial management demands more stable criteria to limit debt.

**3.2.** A target tax supported debt per capita of \$250 by the year 2011 is appropriate.

**3.3.** A target ratio of 1.0 to 1.0 for tax supported debt to general purpose reserves by 2017 is a goal of Council.

**3.4.** A limit of \$21,000,000 in total outstanding tax supported debt is reasonable as a means for achieving the targets in sections 3.1 and 3.2.