CITY OF ST. CATHARINES

Corporate Report

Report from Financial Management Services, Director

Date of Report: January 20, 2017 **Date of Meeting:** January 25, 2017

Report Number: FMS-B008-2017 **File:** 10.57.99

Subject: Allowable Investments and Potential Revenue Sources

Recommendation

That this report be received for information.

Summary

Bill 68 currently through second reading in the Provincial Legislature, contains additional investment opportunities for municipalities. As the City's investment policy is scheduled to be reviewed in 2017, it is recommended that this review commence once Bill 68 receives Royal Assent, in order for the additional opportunities in this bill to be part of the review and update of the City's policy.

Municipalities have limited options outside of property taxation to generate revenues to support operations and ultimately lessen the impact on the property owner. The City of Toronto Act provides a number of alternative revenue streams, which are not available to the other municipalities in Ontario. There are a few alternatives that may be pursued by Ontario municipalities such as government grants, sponsorship/naming rights and shared services.

Background

At its meeting on April 4, 2016, Council received Council Correspondence from the Association of Municipalities of Ontario ("AMO") and Local Authority Services ("LAS") requesting that Council support a resolution to lobby the Province to change *Ontario Regulation 438/97* ("O. Reg 438/97") which governs allowable investment for municipalities. The correspondence requests that the Province amend O. Reg 438/97 to broaden the scope of allowable investment opportunities through AMO's "One Investment Program".

Councillor Britton directed staff to obtain more details regarding the correspondence and what it would mean for the City regarding potentially increased revenues and to also research other potential sources of revenue such as grants as part of the report to Council.

Between the time of the staff direction and now, the Province has completed its review of the *Municipal Act, 2001* ("MA"), and is in the second reading of Bill 68: Modernizing Ontario's Municipal Legislation Act, 2016 which amends the MA, including the addition of the Prudent Investment Section 418.1. This amendment provides the Minister with the authority to grant a municipality prudent investor status, however the rules and conditions necessary before this power can be exercised still need to be set out in future regulations. The MA amendments do not speak to AMO's "One Investment Program", however the amendment does state that a "regulation made under clause (16) (b) may prescribe special rules, conditions and procedures for or in relation to the investment of money by two or more municipalities, acting as a group…" which seems likely to cover the AMO "One Investment Program".

Report

City of Toronto – Prudent Investor Standard

As part of the Five-Year Review of the *City of Toronto Act, 2006*, ("COTA") the City of Toronto proposed amendments to the prescribed list of eligible investments that governed the investment management of the City of Toronto's financial assets, reserves and sinking funds. Similar to O.Reg 438/97, the COTA primarily limited the City of Toronto's investment options to Canadian federal, provincial and municipal government bonds and short-term and fixed-income securities issued by Canadian chartered banks and credit unions.

The City of Toronto requested that the Province of Ontario amend the COTA to implement the prudent investor standard as an alternative to the prescribed list of allowable investments. This change would allow the City of Toronto to invest in asset classes other than fixed-income and money market securities and potentially earn higher rates of return while subjected to higher amounts of financial risk. The City of Toronto identified that the current low interest rate environment does not allow for sufficient and adequate investment returns given the prescribed list of allowable investments.

In November 2015, the Province approved the requested amendments as part of *Ontario Regulation 610/06* ("O. Reg 610/06") effective January 1, 2018. The Province outlined criteria that must be considered when investing money. As per O. Reg 610/06 Section 44(2), the following criteria must be considered when planning investments:

1. *General economic conditions*
2. *Possible effect of inflation or deflation*
3. *Role that each investment or course of action plays within the City's portfolio of investments*
4. *Expected total return from income and the appreciation of capital*
5. *Needs for liquidity, regularity or income and preservation or appreciation of capital*

The City of Toronto must also "*diversify its investments to an extent that is appropriate to general economic and investment market conditions*" and has "*a duty to obtain the advice that a prudent investor would obtain under comparable circumstances*."

An independent board must be established by the City of Toronto which will be delegated responsibility for managing City of Toronto investments and for developing and maintaining an investment plan and for providing annual investment reporting to the City of Toronto's Council.

Bill 68: Proposed Amendments

The Province's amendments to the MA through Bill 68 "Modernizing Ontario's Municipal Legislation Act, 2016" are currently in second reading. Included in those amendments was the addition of the prudent investment section 418.1. This section allows the Province to grant prudent investor status to municipalities. A municipality with prudent investor status can invest in any security (as opposed to the restricted investment options normally provided to a municipality through the MA). Section 418.1 includes the same criteria and requirements as were provided for the City of Toronto in the amendment to the COTA. The regulations for Section 418.1 will set out the rules and conditions that municipalities will need to meet before they can exercise this power, however the regulations have not yet been prepared.

Given the similarity between Section 418.1 and COTA, it is likely that municipalities seeking prudent investor status under the MA would also be required to have an independent board that would be responsible for managing the municipality's investments, developing and maintaining an investment plan and for providing annual investment reporting to the municipal council.

City of St. Catharines Investment Policy

The City of St. Catharines is governed by the *Municipal Act, 2001* which under *Ontario Regulation 438/97* ("O. Reg 438/97") prescribes the securities that a municipality may invest in.

In compliance with O. Reg 438/97, the City has an Investment Policy that outlines practices and procedures to invest City funds to generate the highest return on investment, maintain maximum security and consider liquidity of funds required. As per the Investment Policy "*safety of principal is a primary objective of the investment program…The City shall maximize the rate of return…without compromising the other objectives listed above."* A copy of the City's current investment policy is attached as Appendix 1.

Below is a list of eligible investments issued or guaranteed by the following institutions that is permitted under the City's Investment Policy as allowed by O. Reg 438/97:

1. The Government of Canada.
2. Provincial governments of Canada.

3. A municipality, school board or local board as defined in the *Municipal Affairs Act* or a conservation authority established under the *Conservation Authorities Act*.
4. Schedule I banks. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 middle or AA. Schedule I banks are set out by Section 14 of the *Bank Act*.
5. Schedule II banks. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 high or AAA. Schedule II banks are set out by Section 14 of the *Bank Act*.
6. Loan or trust corporations, registered under the *Loan and Trust Corporation Act*. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 middle or AA.
7. Credit unions or leagues to which the *Credit Unions and Caisses Populaires Act* applies. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 middle or AA.
8. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the *Electricity Act, 1998*.
9. Joint Municipal Investment pools permitted under the *Municipal Act*.

Note that in order to maximize investment returns, the Investment Policy requires that a minimum of three quotations be obtained prior to placement.

Impact of Amendment on City of St. Catharines

The premise behind the prudent investor status is that it allows a municipality to take on a greater level of risk, and earn greater returns. An increased level of risk is not consistent with the City's current investment policy which states that "safety of principal is a primary objective on the investment program".

A review of the City's investment policy should be undertaken in the near future in order to address some of the maximum portfolio shares and institutional limits. If the Bill 68 amendments are approved as they've been presented, it would make sense to give consideration as to whether or not there is any interest in revising any of the objectives and reviewing the risk that the City is willing to take on in consideration of the new investment options which may be available.

AMO One Fund

As previously mentioned, Council received correspondence requesting that Council support a resolution to allow municipalities to invest consistent with the Prudent Investor Standard, if such investments are through the One Investment Program.

The One Investment Program ("One Fund") is an investment program made available to Ontario municipalities and the Ontario public sector and is operated through AMO and the Municipal Finance Officers Association of Ontario ("MFOA") through their subsidiary companies LAS (owned by AMO) and CHUMS (owned by MFOA). Municipalities can

participate in the One Fund and are entitled to a share of investment earnings which is proportionate to their share of the total portfolio assets.

Similar to other investment instruments such as mutual funds, the One Fund charges fees based on a number of points that are taken off the investment returns. For example, if the gross Corporate Bond Portfolio's return is 2.00% for the year, the municipality will receive a net return of 1.55% which is the gross return of 2.00% less 0.45% for service charges.

Security of principal held in the One Fund is **not guaranteed**, therefore there is a risk of some loss of capital. According to One Fund management, approximately 105+ Ontario municipalities participate in the One Fund which has a current balance of approximately $740 million.

The City of St. Catharine's has not invested in the One Fund in the past, in part due to the security of principal not being guaranteed. Additionally, recent investment quotes for investments under the City's investment policy have exceeded published returns of the One Fund.

Other Revenue Options

Ontario Municipalities have a limited number of options other than property taxes to generate revenues to fund its operating costs. According to AMO, out of every household tax dollar paid in Ontario, only $0.09 goes to municipalities (property taxes, users fees), with $0.44 going to the Province and $0.47 going to the Federal government.

In the academic world, there are some who would say that the revenue tool should match the expenditure being funded. For example, private services such as water, sewer, garbage and transit should be funded through user fees, while public services such as police, fire, parks and streetlights should be funded through property and or sales tax. Redistributive services such as social assistance and social housing should be funded through income tax, while other services that are a combination of the other types such as roads, culture and some social assistance should be funded from senior government transfers according to some academics.

Government Grants/Transfers
If the academics direction was followed and with municipalities funding the majority of public services with property taxes; perhaps consideration should be given to municipalities receiving a larger share of sales tax revenues collected by the provincial and federal governments through increased grants or government transfers such as the Ontario Municipal Partnership Fund (OMPF). Therefore the advocacy for increased provincial and federal funding through operating or specific grants.

In order to increase the amount of government grants from senior levels of government, some municipalities have created a Grant Writer position. The rationale behind the creation of such as position, is that the increase in grants received will more than offset the additional cost of the position created. This would allow a dedicated staff person to be aware of the various grants that are available and make recommendations on what submissions are made based on their knowledge of City programs and projects and how they fit with grant criteria. The OMPF is decreasing and Federal Gas Tax for transportation and environmental infrastructure is fairly static. Recent grant announcements for municipalities such as Canada Public Transit Infrastructure and Clean Water and Wastewater Program contain a requirement for projects funded to be advanced from original forecast year for completion.

User Fees
During the 2017 Rates and Fees approval, this Committee and Council approved an annual inflationary increase to the City's rates and fees. This annual inflationary increase will result in rates and fees being better able to continue to cover the same portion of costs to deliver the service as the majority of services delivered have a significant labour component.

Sponsorship/Naming Rights
The City of Kitchener has also been looking at alternative revenue generating opportunities. Options they looked at included advertising in City publications, on arena boards, sponsorship such as pouring rights and naming rights, solar power generation and investment income. In the City of Kitchener's case, they developed a comprehensive advertising policy to define what was acceptable and they hired a third party to sell their advertising space. Funds generated through advertising are being used to reduce rates and invest in infrastructure. Similar to the City of Kitchener, the City of St. Catharines is developing sponsorship/naming policy for its facilities and other assets which will be coming forward for consideration in 2017. In addition, as presented to the BSC on January 18, 2017, the City will be moving to the usage of a third party for advertising sales in City facilities.

Development Charges (DCs)
As the City has very limited developable land, it no longer has development charges. With the City being designated as an urban growth centre and being allocated a significant level of growth over the next 24 years through the Niagara Region's Municipal Comprehensive Review, consideration could be given to what impacts this level of growth would have on the City's infrastructure and if any growth related infrastructure would be required. There have been some recent updates and changes to the Development Charges Act. The primary change that has the potential to benefit the City if it were to re-introduce DCs would be the change to a forward looking service standard, instead of historic service standard, for transit services. To summarize, this change means that the amount of growth related costs for transit that can be charged to new development are not restricted to what has been provided historically, but instead based on forward looking ridership forecasts. A Development Charge Background Study to determine the allowable charge and public consultation process would be

required to be undertaken prior to passing a by-law before collection of DCs could be implemented. If the re-introduction of DCs is to be considered, it should not occur before decisions have been finalized on inter-municipal transit so that the City's role in the service is clear.

Debt Management Strategy
During the 2016 budget process and with approval of the 2016 Capital budget and four year forecast, Council endorsed the City's debt management strategy. Municipalities differ from senior levels of governments in that they are not permitted to budget for a deficit nor are they permitted to borrow for operating costs. Therefore, the City of St. Catharines is committed to maintaining its current debt strategy which has served it well over the past decade.

Shared Services
On July 18, 2016, Budget Standing Committee received Report FMS-B007-2016 on the City of St. Catharines existing and potential future shared services. The Niagara Chief Administrative Officers group is actively working on the shared services file, and City staff remain open to shared services agreements that create opportunities to improve services, reduce costs, or both.

Extending COTA tax tools to rest of Ontario Municipalities
COTA provides the City of Toronto with a number of revenue options that are not available to the other municipalities in Ontario. The following is a list of these revenue options, as well as some options that were not permitted.

- Alcoholic Beverage Tax
- Entertainment and Amusement Tax
- Motor Vehicle Registration
- Parking Levy
- Road Pricing
- Tobacco Tax
- Development Levy
- Hotel Tax
- Municipal Business Income Tax
- Municipal Personal Income Tax
- Municipal Land Transfer Tax
- Municipal Sales Tax
- Parking Sales Tax

Financial Implications
There are no financial implications of this report at this time. However, if the City were to receive additional revenues related to operating activities there is the potential to decrease the annual impact on the property taxes to the property owner.

Relationship to Strategic Plan

Be an affordable city for young people, families and retired older adults is enhanced through:

Investment returns with the highest yield helps provide an alternative revenue stream for the City to better manage the cost of City operations and services. Additional non-tax revenues also supports the achieving a budgetary increase of at or below inflation by 2018.

Conclusion

The City's current investment policy was last updated in 2011 and should be reviewed in 2017. The review should occur after Bill 68 receives royal assent so that the additional investment opportunities can be considered as part of the review and update of the policy. In addition, the City has a limited of options to generate revenues other than through property taxes. Therefore it is important for both staff and our political leaders to pursue options available to the City. During 2017, Staff will be bringing forward a sponsorship/naming policy and updating the City's investment policy. In addition, a third party will be engage to assist with revenue generation opportunities and the Niagara CAO group continues to investigate shared-service opportunities for Region and its municipalities.

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Approved by: Shelley Chemnitz, Commissioner Corporate Services

Attachments:

Appendix 1 – City's Investment Policy

City of St. Catharines
www.city.stcatharines.on.ca

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Financial Management Services – Accounting Division

INVESTMENT POLICY

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SECTION I – POLICY STATEMENT

The purpose of this investment policy is to establish and maintain practices and procedures to invest public funds with the highest return on investment with the maximum security and appropriate liquidity while meeting daily cash flow demands and conforming to all legislation governing the investment of public funds. The policy has been prepared in consultation with the City Treasurer and City Legal Services.

SECTION II – SCOPE

This policy applies to the investment activities of the Operating, Capital, Trust, Reserves and Reserve Funds.

SECTION III – GENERAL OBJECTIVES

The primary objectives of investment activities shall be adherence to statutory requirements, preservation of capital, liquidity, and yield:

1. **Adherence to Statutory Requirements**
   Legislative authority for the investment guidelines of municipal funds is provided in Section 418 of the *Municipal Act 2001*.

2. **Preservation of Capital**
   Safety of principal is a primary objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk and interest rate risk will be mitigated as follows:

   a. Credit Risk: The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

      - Limiting investments to the safer (i.e. higher rated) types of securities
      - Diversifying the investment portfolio so that potential losses on individual securities will be minimized

   b. Interest Rate Risk: The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

      - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
      - Investing operating funds primarily in shorter-term securities or approved investment pools

3. **Liquidity**
   The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements that may be reasonably anticipated. This shall be done where possible by structuring the portfolio so

that securities mature concurrent with anticipated cash demands. The portfolio should consist largely of securities with active secondary or resale markets since all possible cash demands cannot be anticipated. A portion of the portfolio may also be placed in local government investment pools that offer liquidity for short-term funds.

4. **Yield**
The City shall maximize the rate of return earned on the investment portfolio without compromising the other objectives listed above. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to the assumed risk.

SECTION IV – STANDARD OF CARE

1. **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 capital as well as the probable income to be derived. Investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

2. **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. Material interests in financial institutions with which they conduct business shall be disclosed. Further, any personal financial/investment positions that could be related to the performance of the investment portfolio shall be disclosed. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. **Delegation of Authority**
The Director of Financial Management Services is responsible for the prudent investment of the City's portfolio. Authority to manage and implement the investment program is granted to the Assistant Director, or in the Assistant Director's absence, the Manager of Accounting and Payroll, hereinafter referred to as investment officer, who shall act in accordance with established procedures and internal controls consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Those investments governed by the provisions of the "ONE – The Public Sector Group of Funds" agreement shall be deemed delegated to that Agent.

4. **Competitive Selection**
The purchase and sale of securities shall be transacted through a competitive process with financial institutions approved by the Director. The City will accept the offer that optimizes the investment objectives of the portfolio. A minimum of three quotations shall be obtained for each short-term transaction prior to placement and a reasonable number of quotations for each long-term transaction, considering the existing market conditions at the time of placement. Written records shall be retained of

each transaction including the name of the institution solicited, rate quoted, description of the security, investment selected, as well as any other considerations that impacted the decision. If the highest yield security was not selected, an explanation describing the rationale shall be included in this record.

SECTION V – SAFEKEEPING AND CUSTODY

All investments shall be held for safekeeping in the name of the City by approved institutions (Appendix B). The depository shall issue a safekeeping receipt to the City for each investment transaction that lists all pertinent information. The depository shall also provide monthly reports for each account, indicating all investment activity, book value of the holdings, market value as of month-end, and income earned by the investments.

SECTION VI – ELIGIBLE INVESTMENTS

Investments issued or guaranteed by the following institutions will be permitted by this policy, as deemed eligible by Ontario Regulation 438/97 or as authorized by subsequent provincial regulations:

1. The Government of Canada.

2. Provincial governments of Canada.

3. A municipality, school board or local board as defined in the *Municipal Affairs Act* or a conservation authority established under the *Conservation Authorities Act*.

4. Schedule I banks. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 middle or AA. Schedule I banks are set out by Section 14 of the *Bank Act*.

5. Schedule II banks. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 high or AAA. Schedule II banks are set out by Section 14 of the *Bank Act*.

6. Loan or trust corporations, registered under the *Loan and Trust Corporation Act*. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 middle or AA.

7. Credit unions or leagues to which the *Credit Unions and Caisses Populaires Act* applies. Bonds, debentures, and other evidences of indebtedness are subject to a minimum DBRS rating of R-1 middle or AA.

8. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the *Electricity Act, 1998*.

9. Joint Municipal Investment pools permitted under the *Municipal Act*.

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SECTION VII – INVESTMENT PARAMETERS

1. **Diversification**
   The investments shall be diversified by:

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

   In order to ensure maximum security and proper diversification of the portfolio, additional limitations apply as set out in Appendix B. Column 3 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. Column 4 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio. Note that portfolio percentage restrictions apply at the time an investment is made. At specific times, the portfolio limitations may be exceeded as a result of the timing of maturities.

2. **Maximum Maturities**
   To the extent possible, the City shall attempt to match 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 and Trust funds with longer-term horizons may be invested in securities exceeding ten (10) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

SECTION VIII – REPORTING

1. **Method**
   The investment officer shall provide an Operating Fund investment report to Council the first meeting of each month (Appendix C). All other funds are to be reported annually to Council together with the annual audited City Financial Statements. The annual investment report should include the following:

   - A listing of individual securities held at the end of the reporting period by maturity date;
   - Investment term in days and interest rate;
   - A record of the date of each security transaction, including a statement of the purchase and sale price of each security;
   - Percentage of the total portfolio which each type of investment represents;
   - 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;
   - A statement by the Director of Financial Management Services 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;

- Such other information that the Committee may require or that, in the opinion of the Director of Financial Management Services, should be included.

2. **Performance Measures**
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 that is commensurate with the investment risk constraints and cash flow needs of the City. Market yields should be higher than the rate given by the City's bank for the various bank accounts.

3. **Market Value**
The market value of the portfolio shall be calculated at least annually.

SECTION IX – SECURITIES FOR SUBDIVISION AND DEVELOPMENT SERVICING

This policy relating to securities required for subdivision and development servicing (i.e. "Letters of Credit") has been designed to provide adequate protection to the City of St. Catharines and to be fair and reasonable to developers and other interested parties. The objective is to ensure that monies that guarantee the installation of services will be available to the City when required. The City of St. Catharines will only accept approved securities in the prescribed letter of credit form issued by Schedule I banks, Schedule II banks, loan or trust corporations with a minimum DBRS rating of R-1 middle or issued by credit unions.

SECTION X – POLICY CONSIDERATIONS

1. **Exemption**
Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. **Amendments**
This policy shall be reviewed on a regular basis. Amendments may be made at any time at the recommendation of the Director. The appropriate authority must approve any policy changes.

SECTION XI – GENERAL

1. **Signing Authority**
Investments made by the City are settled by cheque requisition, electronically by wire or through an electronic fund transfer. A *Voucher Payable Request* initiates a cheque requisition and is authorized by the Manager of Accounting and Payroll and verified by the Director or Assistant Director of Financial Management Services. Investments settled by electronic funds transfer or wire require staff approvals by any two of the following approved staff; Director of Financial Management Services, Assistant Director of Financial Management Services, Manager of Accounting and Payroll, and Budget Review Analyst.

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INVESTMENT POLICY

Appendix A – Definitions

The following is a glossary of policy definitions and key investing terms:

Accrued Interest: the accumulated interest due on a bond as of the last interest payment made by the issuer.

Amortization: the systematic reduction of the amount owed on a debt issue through periodic payments of principal.

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.

Basis Point: a unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g. "1/4" of 1 percent is equal to 25 basis points.

Bid: the indicated price at which a buyer is willing to purchase a security or commodity.

Book Value: the value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond: a bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specific conditions.

Call Risk: the risk to a bondholder that a bond may be redeemed prior to maturity.

City: The Corporation of the City of St. Catharines

Commercial Paper: an unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Competitive: issuers are given an equal opportunity to compete for City business.

Council: the Municipal Council of the City of St. Catharines.

Coupon Rate: the annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as "interest rate".

Credit Quality: the measurement of the financial strength of a bond issuer. This helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Higher credit quality results in lower interest rates as the risk of default is lower. Credit quality ratings are provided by nationally recognized agencies such as Dominion Bond Rating Service (DBRS).

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

Designate: a person authorized by the Director to act on his/her behalf, for purposes of this policy.

Discount: the amount by which the par value of a security exceeds the price paid for the security.

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INVESTMENT POLICY
Appendix A – Definitions

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

Fair value: the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale.

Investment Policy: a concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity: an asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP): an investment by local government in which their money is pooled as a method for managing local funds, e.g., the “One Fund”.

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

Market Value: the 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.

Offer: an indicated price at which market participants are willing to sell a security or commodity.

Par: the face value or principal value of a bond, typically $1,000 per bond.

Premium: the amount by which the price paid for a security exceeds the security’s par value.

Principal: the face or par value of a debt instrument or the amount of capital invested in a given security.

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

Safekeeping: holding of assets such as securities by a financial institution.

Schedule I bank: a chartered bank operating under the *Bank Act*. The voting shares must be widely held with no investor holding more than 10% and foreign ownership limited to 25%.

Schedule II bank: a chartered bank operating under the *Bank Act* that may be wholly owned by non-residents.

Serial Bond: a bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Yield: the current rate of return on an investment security generally expressed as a percentage of the security’s current price.

Yield-to-maturity: the rate of return yielded by a debt security held to maturity when both interest payments and the investor’s potential capital gain or loss are included in the calculation of return.

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INVESTMENT POLICY

Appendix B – Approved Investments, Diversifications and Ratings

	Category	Minimum Credit Rating for Bond, Debenture or Indebtedness	Maximum Portfolio Share	Institutional Limit per Issuer
1.	Government of Canada		100%	100%
2.	Provincial governments	R-1 middle, AA	50%	25%
3.	Municipalities and local boards		50%	10%
4.	Schedule I banks	R-1 middle, AA	100%	50%
5.	Schedule II banks	R-1 high, AAA	50%	15%
6.	Loan or trust corporations	R-1 middle, AA	10%	5%
7.	Credit unions	R-1 middle, AA	10%	5%
8.	Incorporated under *Electricity Act*		15%	5%
9.	Pooled investment funds		25%	15%

Dominion Bond Rating Service ("DBRS") provides ratings on institutional quality. A company having an R-1 rating is a high grade prime credit. It has a very high ability to repay its current liabilities as they become due. The strength of various liquidity ratios is unquestioned and alternative sources of funds to commercial paper exist. The outlook for future liquidity and the trend of these ratios should be favourable. The level of profitability has been reasonable and relatively stable with only modest fluctuations. No substantial qualifying negative factors exist and the firm is of sufficient size to be a strong influence in its industry. DBRS also indicates where within the rating classification the company falls (high, middle or low).

Commercial Paper and Short Term Debt:

Symbol	Credit Quality
R-1 (high)	Highest
R-1 (middle)	Superior
R-1 (low)	Satisfactory
R-2 (high)	Adequate
R-2 (middle)	Adequate
R-2 (low)	Adequate
R-3 (high)	Speculative
R-3 (middle)	Speculative
R-3 (low)	Speculative
D	In Arrears
NR	Not rated

Bond and Long Term Debt:

Symbol	Credit Quality
AAA	Highest
AA	Superior
A	Satisfactory
BBB	Adequate
BB	Speculative
B	Highly Speculative
CCC	Very Highly Speculative
CC	Very Highly Speculative
C	Very Highly Speculative
D	In Arrears

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INVESTMENT POLICY

Appendix C – Investment Report

INVESTMENT SUMMARY:

Institution[1]	Individual Share[2]	Portfolio Share[2]	Maturity Value	Policy Limit[2]
Government of Canada				100%
Provincial Governments				50% 25%
Municipalities and local boards				50% 10%
Schedule I banks				100% 50%
Schedule II banks				50% 15%
Loan or Trust corporations				10% 5%
Credit Unions				10% 5%
Incorporated under the *Electricity Act*				15% 5%
Pooled investment funds				25% 15%
TOTAL			$0	100%

INVESTMENT DETAIL BY DUE DATE:

Security Issuer (Dealer[3]), Type[4]	Settlement Date	Due Date	Term Days	Interest Rate	Maturity Value
TOTAL					$0

NOTES:

1 In accordance with Section 418 of the *Municipal Act 2001* and Ontario Regulation 438/97, amended to O. Reg 399/02.

2 The "Policy Limit" sets out the maximum share of a particular investment or investment category at the time of placement. Refer to the City of St. Catharines Investment Policy, Appendix B Approved Investments, Diversifications and Ratings.

3 Security dealer noted if different than security issuer.

4 Investment Types:

BA = Bankers Acceptance, purchased at discount

BDN = Bearer Deposit Note, purchased at discount

GN = Guaranteed Note, purchased at discount