

CITY OF YORKTON BYLAW NO. 2/2003

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**CITY OF YORKTON
SASKATCHEWAN**

BYLAW NO. 2/2003

**A BYLAW OF THE CITY OF YORKTON TO ESTABLISH AN
INVESTMENT POLICY FOR THE CITY OF YORKTON**

The Council of the City of Yorkton in Council assembled enacts as follows:

SHORT TITLE

1. This Bylaw may be cited as the Investment Policy Bylaw No. 2/2003.

PURPOSE

2. The purpose of this bylaw is to adopt a policy setting out the types of investments in which the City is authorized to invest its available funds.

INVESTMENT POLICY

3. The city will invest all its available funds in accordance with the Investment Policy attached as Schedule "A".

COMING INTO FORCE

4. This Bylaw comes into force on the day of its final passing.

MAYOR


CITY CLERK

Introduced and read a first time this 27th day of January A.D. 2003.

Read a second time this 27th day of January A.D. 2003.

Read a third time this 27th day of January A.D. 2003.

SCHEDULE "A"

 City of Yorkton			
<i>POLICY TITLE</i> INVESTMENT POLICY		<i>ADOPTED BY</i> City Council	<i>POLICY NO.</i> 10.400
<i>ORIGIN/AUTHORITY</i> City Council	<i>JURISDICTION</i> City of Yorkton	<i>EFFECTIVE DATE</i> January 27, 2003	<i>PAGE #</i> 2 of 7

1. **PURPOSE:**

The purpose of this policy is to ensure that the investment of City funds is made with judgment 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 probably income to be derived.

This policy applies to all financial assets of the City of Yorkton. These funds are accounted for in the City of Yorkton's Audited Annual Financial Report and include:

General Operating Fund
Working Capital Balances
Perpetual Care Fund
Other Trust Accounts
Land Development Fund
Reserve Account Balances
and any other fund created by City Council,
unless specifically exempted.

2. **POLICY:**

The City of Yorkton shall invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City.

3. **DEFINITIONS:**

- 3.1 Approved list and limits – the back page of this document identifies the approved fixed income instruments, maximum amounts that can be invested in any instrument, and the maximum amount that can be invested in any single institution, where applicable.
- 3.2 Ask – The price, at which, the City can purchase securities.
- 3.3 Asset Backed Securities – these are securities created by the sale of certain assets, such as major blocks of accounts receivable, by a corporation to another, and investors buy a stake in those assets; investors have a claim on those assets. Mortgage backed securities are a similar financial instrument.
- 3.4 Banker's Acceptances – This instrument is essentially a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed, by his or her bank. The bank's acceptance is signified by counter-signature on the draft. Once a draft of this type has been co-signed, it becomes a 'Banker's Acceptance' backed by the credit of the accepting bank. These are extremely liquid, and tend to yield higher than government obligations by 10 to 15 basis points.

- 3.5 Bearer Discount Notes – These are a direct obligation of the specific issuing bank. They are issued on a discount basis in denominations of \$100,000. Terms range from one week to one year. They are of a liquid nature and yield approximately the same as a banker’s acceptance note when issued by larger banks. Those issued by smaller banks can be less liquid but they tend to yield from 10 to 40 basis points more.
- 3.6 Bid – The price offered for securities which the City wants to sell.
- 3.7 Broker – A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.
- 3.8 Commercial Paper - is the name given to unsecured promissory notes issued by a wide range of Canadian corporations. The notes are backed by the general credit of the issuing corporation and are usually unsecured. In addition, unused bank lines of credit and/or a parental guarantee support most borrowers. In most cases, they are authorized investments for life insurance, trust companies, and pension funds. Notes are usually issued in multiples of \$1,000 subject to a minimum of \$50,000, although a number of companies have minimums of \$100,000. Maturities range from overnight to one year. The notes may be interest bearing or discount, fully registered or in bearer form.
- 3.9 Coupon – (a) The annual rate of interest that a bond’s issuer promises to pay the bondholder on the bond’s face value. (b) A certificate attached to a bond evidencing interest due on a payment date.
- 3.10 Dealer – A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.
- 3.11 Debenture – a bond secured only by the general credit of the issuer.
- 3.12 Delivery versus Payment – There are two methods of delivery of securities; delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the security.
- 3.13 Derivatives – The term “derivatives” refers to a wide array of financial products that are dependent for their value on (or “derived” from) an underlying financial instrument (eg. Stocks, bonds, currencies), a commodity, or an index representing
- 3.14 Discount – The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also if considered to be at a discount.
- 3.15 Discount Securities – Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g. Treasury Bills).
- 3.16 Diversification – Dividing investment funds among a variety of securities offering independent returns.
- 3.17 Face (Par) Value – The value of a security as expressed on its face without consideration to any premium or discount. It represents the dollar value on which the interest rate is applied.
- 3.18 Federal and Provincial Crown Corporation Notes – These investments are guaranteed by or are a direct obligation of the Crown. They are of high quality and liquidity. Issued in either discount or interest-bearing form, these notes yield approximately the same as direct Provincial or Federal obligations.

- 3.19 Funds – Are those City of Yorkton assets held in various bank accounts and invested in a variety of securities for the benefit of the citizens of Yorkton or the beneficiaries of a fund.
- 3.20 Interest Rate – The actual interest rate as shown on the security.
- 3.21 Liquidity – A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be transacted at those quotes.
- 3.22 Long Term – An investment when purchased having a maturity date in excess of one year.
- 3.23 Market Value - The price at which a security is trading and could presumably be purchased or sold.
- 3.24 Maturity – The date upon which the principal or stated value of an investment becomes due and payable.
- 3.25 Money Market - The market in which short term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.
- 3.26 Portfolio – Collection of securities held by an investor.
- 3.27 Premium – The difference between the purchase price of a security and its value at maturity when the price paid at the time of purchase is higher than the face value.
- 3.28 Prudent Person Rule – An investment standard, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.
- 3.29 Provincial Treasury Bills and Notes - Several provinces issue treasurer bills and notes. These too are high-quality, low-risk, extremely liquid investments. These can be either interest bearing or discount.
- 3.30 Provincial Canada Bonds – these securities form an active part of the short-term money market as the long-term debt approaches maturity. Like the other government investments, they are considered high quality and their yield is in the line with other government issues.
- 3.31 Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.
- 3.32 Bond Rating Service - A corporation whose primary business mandate is to analyze the credit-worthiness of debt securities issued by all levels of government and corporations and make recommendations as to the risk level of such debt. Debt ratings refer to the ratings issued by Dominion Bond Rating Services (DBRS) or other recognized bond-rating services (i.e. Standard & Poors, Moody's Investor Services).
- 3.33 Ratings – Companies are granted a rating of either R1, R2 or R3. These categories are broken down even further into High, Medium, or Low. Below is a table providing a comparison between DBRS Commercial Paper ratings and Bond ratings.

CREDIT QUALITY	BOND RATING	COMMERCIAL PAPER RATING
Above Average	AAA or AA	R1-M to R1-H
Average	A	R1-L
Medium Grade	BBB	R2-M to R2-H
Lower Grade	BB	R2-L to R2-M

- 3.34 Risk – the potential for loss of principal and/or accrued interest on an investment.
- 3.35 Safekeeping – A service to customers rendered by banks and investment dealers for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.
- 3.36 Securities Debt – Includes bonds, debentures, treasury bills, commercial paper, repurchase agreements, promissory notes, coupons, residuals and asset backed securities.
- 3.37 Securities, Equities - Includes common stock, preferred shares, convertible debentures, partially paid shares, warrants or rights, publicly traded on a recognized Stock Exchange.
- 3.38 Short Term Investments - an investment when purchased having a maturity date within 12 months.
- 3.39 Term Receipts – These instruments operate under various labels (Certificates of Deposit, Term Deposits, Fixed Term Deposits, Guaranteed Investment Certificates, etc.) These tend to be fully registered, nontransferable, interest bearing notes. Terms range from one day to ten years. Though some may have call features, which allow them to be liquidated on demand for an interest penalty, usually these tend to be nonliquid investments. Rates and terms can vary significantly, so a municipality is well advised to shop around before investing.
- 3.40 Government of Canada Treasury Bills – the Bank of Canada, as agent for the Government of Canada, calls for tenders for a specified amount of treasury bills. The terms at issue are regularly 91 days and 182 days, and occasionally term of 270 days and 364 days. “T-Bills” are available in bearer form only and are sold at a discount to mature at face values of \$1,000, \$5,000, \$25,000, \$100,000 and \$1,000,000. They are extremely liquid and considered a prime investment vehicle.
- 3.41 Trust Funds – Deposits held under a separate legal agreement, joint use with a third party and the City, and/or managed by specific request of a third party.
- 3.42 Yield - The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD OR YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

4. RESPONSIBILITY

- 4.1 City Council to:
- i. Adopt, by resolution, the City of Yorkton’s Investment Policy.
 - ii. Ensure that as part of the annual audit, performed by the external auditors, that compliance with this policy has been achieved.

4.2 Director of Finance

- i. Ensure that the investment portfolio is sufficiently liquid to enable the City of Yorkton to meet all operating requirements, which might be reasonably anticipated.
- ii. Ensure that the investment portfolio attains a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.
- iii. Is responsible for the day to day management of the investment of surplus funds as identified in this policy.
- iv. Is responsible for reconciling all investments to the general ledger, and submitting a listing of the City's investment portfolio to the City Manager.
- v. Is jointly responsible, for the custody, control and safekeeping of all investment securities owned by the City of Yorkton.

5. **PROCEDURES:**

The Director of Finance will:

- 5.1 Review the total amount of funds available and make decisions as to term and type of securities, taking into consideration the existing portfolio and anticipated cash requirements.
- 5.2 Forecast the cash requirements of the City's Capital and Operating budgets by noting any large intended withdrawals and deposits for the current and subsequent years.
- 5.3 Give consideration to investing with local institutions and doing business with local brokers over non-residents, providing rates, terms, quality of investment and service is comparable.
- 5.4 Assess the risk/return nature of investments, liquidity and duration of portfolio when deciding upon investment vehicles, always keeping in mind the "Prudent Person" principle.
- 5.5 When an investment whose rating is downgraded below the investment policy guidelines, ensure it is sold as soon as practical without compromising the portfolio.

6. **POLICY REVIEW AND UPDATE:**

- 6.1 The Director of Finance is responsible for reviewing and updating this policy as may be periodically appropriate.

SCHEDULE "A"
INVESTMENT POLICY

CREDIT QUALITY	BOND RATING	COMMERCIAL PAPER RATING
Above Average	AAA or AA	R1-M to R1-H
Average	A	R1-L
Medium Grade	BBB	R2-M to R2-H
Lower Grade	BB	R2-L to R2-M

Approved List of Investments

Maximum

Short Term Investments

% of

portfolio

Investments when purchased having a term to maturity of less than 12 months

Federal Government of Canada and Federal Crown Corporations Provincial Government in Canada and Provincial Crown Corporations – Rated "A" or higher by DBRS - unlimited	
Canadian Banks Schedule I "A" or better – unlimited	
Canadian Banks Schedule II or Canadian Trust Companies rated "R-1 mid" or better	30%
Corporate Bonds Rated "A" or higher by DBRS –	10%
Commercial Paper Rated R1 (MID) or higher by DBRS –	10%

Long Term Investments

Investments when purchased having a term to maturity of greater than 12 months

Federal Government of Canada and Federal Crown Corporations – unlimited	
Provincial Government in Canada and Provincial Crown Corporations Rated "A" or higher by DBRS –	
	unlimit
Canadian Banks Schedule I rated "A" or better – unlimited	
Canadian Banks Schedule II or Canadian Trust companies rated "A" or better –	30%
Corporate Bonds Rated "A" or higher by DBRS –	10%
Commercial Paper Rated R1 (MID) or higher by DBRS –	10%
*Municipal Government, School District or Health District rated "A" or better –	10%

*There shall be no restrictions on the purchase of securities offered by or unconditionally guaranteed by the Province of Saskatchewan and the City of Yorkton.

NOTE: The City of Yorkton shall not take any foreign currency risk. Therefore, investments are not allowed in non-Canadian dominated investments.