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Appendix G

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Policy Statement: The [Financial Management - Treasury Policy](#) provides a framework for optimal utilization of the Town’s financial resources, in accordance with legislation and the Town’s strategic goals.

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1. Policy Purpose

This policy outlines the methods the Town will use to manage its financial resources and protect and preserve capital, while maintaining solvency and liquidity to meet on-going financial requirements. This policy provides guiding principles for:

- Utilization of cash resources
- The issuance of external debt by the Town
- Establishment, continuance and use of reserves and reserve funds

The Treasury Policy is designed to work in conjunction with other Town policies and support the financial plans that result from the application of those policies. This policy should be revised in concert with other policies of the Town as required.

2. Guiding Principles & Objectives

Treasury activities are governed by the provisions and requirements of the *Municipal Act, 2001*, *Development Charges Act*, *Planning Act*, *Building Code Act*. Specific governing legislation for each of debt, reserve and reserve fund, and investment activity is further outlined in each of the sections below.

Any Provincial Statues or Regulations thereof will supersede and take precedence over this policy.

3. Scope

The policies outlined in this document are applicable to all investments, debt and reserve and reserve fund activity undertaken by the Town of Milton. In accordance with the *Public Libraries Act, R.S.O. 1990 c P.44, s.25*, the Milton Public Library Board may request the Town to raise debentures for funds to acquire land, constructing or altering buildings, or to acquire books and other materials required for a newly established library.

Reserves and Reserve Funds of the Milton Public Library are established and administered by the Town of Milton in accordance with this policy. This policy does not apply to the Downtown Milton Business Improvement Area (BIA) who comply with their own respective policies as approved by their Boards. Although the Town maintains a DBIA Surplus Reserve Fund on behalf of the DBIA, these funds are generated and managed by the BIA.

This Policy includes all investment funds that are managed by the Town of Milton and excludes any of the Town's sinking fund investments that are managed by the Region of Halton or investments in Milton Hydro Holdings Inc.

4. Policy

4.1 Banking

The Town shall maintain a Banking Signing Authorities Bylaw that identifies the authorities for establishing banking and investment accounts, identifies the authorized banking signing officers on behalf of the Corporation and outlines the authorities and requirements for payment approvals as well as both general banking and investment activities.

4.2 Debt Management

Debenture financing is one of the mechanisms for funding capital projects. Generally capital projects provide benefits to residents over a number of years and therefore it may be appropriate to spread the cost over the benefit period to ensure those who benefit will contribute to the cost. Debenture financing may also be used to mitigate fluctuations in tax rates as well as manage cash flow and reserve balances.

4.2.1 Adherence to Legislative Requirements

Debt issuance at the Town will only be undertaken in compliance with the provisions of the *Municipal Act, 2001*, specifically Part XIII - Debt and Investment, as well as *Ontario Regulation 403/02* (Debt and Financial Obligations Limits). *Ontario Regulation 403/02* limits the amount of debt that can be utilized without required approval from the Ontario Municipal Board (OMB) such that the annual principal and interest payments cannot exceed 25% of own source revenue.

Temporary borrowing for works as per section 405 of the *Municipal Act, 2001*, as amended is permitted to be used to meet cash flow requirements during the construction of infrastructure. Temporary borrowing may only be applied in situations where the capitals works have been approved by Council and the upper tier municipality has approved the issue of debentures for the work.

Temporary borrowing for operational purposes as per section 407 of the *Municipal Act, 2001*, as amended is authorized to meet the current expenditures of the Town until taxes or other revenues are received.

4.2.2 Objectives

The primary objectives of the Town's debt program shall be:

- i) Adhere to legislative requirements;
- ii) Ensure financial flexibility to respond to emerging needs in order to support corporate priorities and strategic plans;
- iii) Minimize long-term cost of financing;
- iv) Minimize financial risk;
- v) Match the recovery of capital cost to an appropriate funding source.

4.2.3 Debt and Financial Obligations

Under *O. Reg. 403/02* the debt charge payments cannot exceed 25% of the Town's annual total own source revenues however this policy sets out further limitations on the amount of debt that the Town may issue. Debt limits must consider and include financing leases as well as any guarantees to other boards or agencies.

For the Town of Milton the amount of debt payments shall be limited to 15% of the Town's own source revenues and the debt limit as calculated by the regulations could be as high as 20% where at least 25% of the debt repayments can be made from other sources of revenue such as user fees, future development revenues or future capital provision payments.

The term of the debt repayment must match or be less than the expected useful life of the asset and will be structured for the shortest period to reduce overall financing costs while considering current and future taxpayer benefit.

Financing leases have different financial and other risks than traditional debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material financing lease. See Policy No. 112 - Procurement and Disposal.

Temporary borrowing for works under section 405 of the *Municipal Act, 2001*, as amended will be no greater than 3 years and long term debt will be secured as soon as possible after the completion of a project or 3 years, whichever is less, to replace the short term borrowing. All temporary borrowing costs will be charged as part of the project costs and form part of the long-term debt requirements.

Any temporary borrowing for operations, as referenced under section 407 of the *Municipal Act, 2001*, as amended is to be repaid as soon as the Chief Financial Officer & Treasurer has determined adequate cash balances are available to do so.

4.2.4 Authority

Long term borrowing, or debentures, are issued by the Region of Halton on the Town's behalf in accordance with the *Municipal Act, 2001*, s. 401 which states that where there is a two tier government structure, debentures must be issued by the upper tier. The Chief Financial Officer & Treasurer, in accordance with the annual capital budget process, shall determine eligible capital works for debenture financing which will be provided to Council for approval. The minutes of that Council meeting and the associated confirming bylaw will be the supporting documents

which provides authority for debenture financing. The Chief Financial Officer & Treasurer, in consultation with the Region of Halton, shall determine the timing of issuance for borrowing that has been approved by Town Council.

Temporary borrowing for works as referenced under section 405 of the *Municipal Act, 2001*, as amended would be managed through the issuance of a By-law authorizing temporary borrowing to meet expenditures associated with approved capital works prior to the issuance of debentures.

Temporary borrowing for operations, as referenced under section 407 of the *Municipal Act, 2001*, as amended will be managed in compliance with the Operational Borrowing By-law of the Town.

4.3 Reserves and Reserve Funds

Under the authority of Council, reserves and reserve funds are appropriations from the Town's net revenues designated for purposes that may extend beyond the current fiscal year. Setting aside funds for planned future capital expenditures, unexpected or unpredicted events or to smooth expenditures which would otherwise cause fluctuations in the operating or capital budgets ensures the ongoing financial stability of the organization. Reserves and reserve funds are an integral part of the municipal budget planning process and long term financing plan that contributes to the municipality's sound financial position.

4.3.1 Adherence to Legislative Requirements

Reserves and Reserve Funds are governed by the *Municipal Act, 2001*, as amended which provides municipalities with broad powers to manage financial matters, which includes power to establish reserves and reserve funds for services under their jurisdiction where they have the authority to spend money. Other governing legislation includes *Development Charges Act, Planning Act, Building Code Act, Federal/Provincial Transfer Payments, Gas Tax*.

4.3.2 Objectives

The primary objectives of reserves and reserve funds shall be:

- i) Adherence to statutory requirements;
- ii) Promotion of financial stability and flexibility;
- iii) Provision for major capital expenditures;
- iv) Reduce the need for tax-levy funded debentures;
- v) Smooth expenditures which would otherwise cause fluctuation in the operating budget;
- vi) Ensure compliance with the terms of financial agreements or contracts.

4.3.3 Establishment of Reserves and Reserve Funds

Council, on the recommendation of the Chief Financial Officer & Treasurer, may establish a reserve or discretionary reserve fund and shall establish an obligatory reserve fund where required pursuant to legislation or contract. Reserves and reserve funds are created by specific by-laws or as part of other by-laws, such as those for development revenues or annual budgets.

Any change to the purpose for which the reserve or reserve fund is designated must be permitted by provincial statute and approved by Council. Reserves or reserve funds for different purposes shall be separate, but each may include a group of services in the same category.

Target funding levels shall be established for every reserve and reserve fund. Reserve and reserve fund balances and associated targets shall be reviewed periodically to ensure adequate reserve and reserve fund levels are being maintained.

4.3.4 Transfers to/from Reserves and Reserve Funds

Contributions to and/or withdrawals from reserves and reserve funds shall be authorized as part of the annual budget approval process or specifically by resolution with the following exceptions:

- i. Direct contributions to reserve and reserve funds such as development revenues, investment income, other external revenues, etc.
- ii. Corporate use reserves, as outlined in Appendix A, including Insurance and Legal Matters, and WSIB where staff may transfer funds throughout the year or as part of the year end process in order to manage the budget relative to actual levels of activity in those areas.
- iii. Transfers authorized through the Town's Budget Management Policy No. 113, including emergency spending and the use of the Project Variance Reserve to manage in-year variances to the Town's capital projects.
- iv. To manage the budget relative to actual levels of activity in areas such as tax write offs, investment income, supplementary taxes and/or dividend income from Milton Hydro, as examples, staff may transfer funds to/from Reserve throughout the year or as part of the year end process.

A schedule summarizing transfers to/from all reserves and reserve funds along with commentary on variances to budget will be reported to Council through the year end operating report as further discussed in section 7.2 - Reserve and Reserve Fund Reporting.

4.3.5 Investment of Reserves and Reserve Funds

Reserves and Reserve Funds may be invested in accordance with the conditions as set out in this policy through section 4.4 - Investments and Cash Management. Interest earned on reserves shall be recognized as revenue in the operating budget. Interest earned on reserve funds shall be recognized as revenue in each specific reserve fund

Interest earnings will be allocated based on the following priority:

- i. Development Reserve Funds will be allocated monthly interest based on the Bank of Canada overnight rate as referenced in the Development Charges Act.
- ii. Reserve Funds (with the exception of Development Reserve Funds) will be allocated monthly interest based on the Town's overall investment portfolio annual return.
- iii. Monthly interest will be calculated on unspent capital balances based on the average annual return on the Town's cash portion of the investment portfolio and allocated to Infrastructure Renewal Reserves.
- iv. Operating fund will be allocated interest in accordance with the Council approved budget.

- v. Excess investment income revenue above the established limit as identified in the Operating fund will be transferred to reserve in accordance with Financial Management - Financial Principles Policy No. 110 section 4.2.vii.

4.3.6 Temporary Borrowing from Reserves and Reserve Funds

Internal borrowing to cover a reserve short-term deficit, interim servicing requirements or internal financing is permissible, subject to any legislative restrictions, and the following requirements:

- Borrowing must not adversely affect the intended purpose of the reserve
- A plan to repay the reserve within a reasonable timeframe is required
- Interest, equivalent to the Town's interest earnings or as prescribed by legislation governing specific reserve funds, will be applied to the outstanding amount borrowed
- Legislated or contractual obligations are satisfied.

4.3.7 Termination of Reserves and Reserve Funds

If the purpose for which the reserve or reserve fund was created has been accomplished, the Chief Financial Officer & Treasurer, in consultation with program area staff and, subject to any legislative restrictions, shall report to Council with recommendations on:

- The closure of the reserve or reserve fund;
- The disposition of any remaining funds; and
- Any necessary changes to this policy.

A resolution of Council will be required to close a reserve.

See Appendix 1 for an inventory of Reserve and Reserve Funds indicating the purpose of each fund, funding source, use of funds and target balance.

4.4 Investment and Cash Management

4.4.1 Adherence to Legislative Requirements

Investment activities must be made in accordance with Section 418 (1) of the *Municipal Act, 2001*, as amended which states that a municipality may invest money it does not need immediately in securities, in accordance with prescribed rules and regulations. The prescribed securities that municipalities may invest in as well as the rules for making investments, entering into related financial agreements and reporting on activities is set out under Ontario Regulation 438/97.

4.4.2 Objectives

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

- i) Adherence to statutory requirements
- ii) Preservation of principal
- iii) Ensuring availability of cash to meet disbursements and other obligations;
- iv) Maintaining liquidity;

- v) Diversification of the investment portfolio, commensurate with constraints in (1) to (v);
- vi) Earning a competitive rate of return, commensurate with constraints in (i) to (v);
- vii) Regular review of the effectiveness of the policy in meeting the above objectives; and
- viii) Periodic audit of the investment program to ensure adherence to the policy.

The following summary identifies the eligible instruments and the limits on the total principal that may be outstanding at any time with the issuer. Investments are limited to securities that are expressed or payable only in Canadian dollars.

Authorized Investments and Limitations							
Category	Sector ⁽¹⁾	Portfolio Maximum	Individual Maximum ⁽²⁾	Term Limitation (Years)	Minimum DBRS Rating ⁽³⁾		
					Short-term	Long-Term	
Federal	Federal and Federal Guaranteed ⁽⁴⁾	100%	100%	20	N/A	A (low)	
Provincial	Provincial and Provincial Guaranteed ⁽⁴⁾ (example: Provincial Hydro Authority)	100%	20%	15	R-1 (low)	A (low)	
Municipal	Municipal and Municipal Guaranteed	50%	10%	15	R-1 (low)	A (low)	
Boards / Schools	School Board	15%	5%	10	R-1 (low)	AA(low)	
	University and College ⁽⁵⁾						
	Local Board or Conservation Authority						
	Public Hospital Board						
	Non-profit Housing Corporation						
Financial Institution ⁽⁶⁾	Schedule I Bank (BMO, BNS, CIBC, NBC, RBC, TD)	60% ⁽⁷⁾	60%	20%	10	R-1 (low)	A (low) ⁽⁸⁾
	Schedule II & Other Schedule I Banks not listed above		20%	10%	2		
	Trust Loan / Credit Union						
ONE Investment Program ⁽⁹⁾	Canadian Government Bond Portfolio	25%		10%	N/A	N/A	N/A
	Canadian Corporate Bond Portfolio			10%			
	Canadian Equity Portfolio			10%			
Other	Asset Backed Securities	10%	5%	5	R-1 (high)	AAA	
	Commercial paper or promissory notes	10%	5%	1	R-1 (mid)	N/A	

Notes:

(1) Per definitions and regulations under Ontario Regulation 438/97.

(2) Individual maximum applies to either an individual institution or in the case of the ONE Investment Program it applies to individual portfolios.

(3) Equivalent ratings from Moody's Investor Services, Standard and Poor's or Fitch Ratings are also acceptable.

(4) Includes bonds, debentures or other evidence of indebtedness issued or guaranteed by the Government of Canada, or a Province of Canada. A minimum of 10% of the portfolio must be in the Federal or Provincial category.

(5) Includes 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 and a college established under the Ontario Colleges of Applied Arts and Technology Act, 2002.

(6) Includes bonds, debentures, deposit receipts, deposit notes, certificates of deposit or similar instruments issued, accepted, guaranteed or endorsed by a bank in Schedule I or II or a Credit Union, including bail-in. Six major Schedule I Banks include: Bank of Montreal, Bank of Nova Scotia (The), Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and Toronto-Dominion Bank (The). Credit Unions require financial statements or certification in writing that various financial criteria has been met as outlined in O. Reg. 438/97.

(7) The overall Financial Institution category shall not exceed 60% of the total portfolio, within this category:

- i) Aggregate holdings of the Six major Schedule I Banks shall not exceed 60% of the total portfolio; and
- ii) Aggregate holdings of Schedule II & Other Schedule I Banks not listed above and Trust Loan / Credit Union's shall not exceed 20% of the total portfolio.

(8) For securities of bonds, debentures, promissory notes or other evidence of indebtedness, issued or guaranteed by a bank listed in Schedule I, II or III to the *Bank Act* (Canada) with a term-to-maturity less than or equal to 2 years on the day the investment is made, the prescribed minimum credit rating is AA(low).

(9) The ONE Investment Program provides recommended investment timelines for each fund however funds can be withdrawn with one day's notice and investments in each pool meet eligibility criteria as defined by regulations under the Municipal Act.

4.4.3 Portfolio Limitations

Portfolio size limitations listed above will be applicable based on the allowable percentage of the portfolio on the day an investment is made.

When determining the portfolio limitations:

- The total portfolio (denominator) shall include all cash, cash equivalents, short-term investments and long-term investments.
- Funds held within general or high interest saving accounts shall not be used to determine the maximum category or sector limitations (numerator).

4.4.4 Credit Ratings

The town shall only invest in securities meeting the ratings prescribed by regulation under the *Municipal Act, 2001*, as amended.

Credit ratings are forward looking opinions about credit risk which reflect the creditworthiness of an issuer, rated entity, and/or security. Ratings are established by Dominion Bond Rating Service (DBRS), Fitch Ratings, Moody’s Investors Service Inc., and Standard & Poor’s, as follow:

Rating Description	DBRS		Moody's		S&P		Fitch	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Highest Credit Quality	AAA	R-1 (high)	Aaa	P-1	AAA	A-1+	AAA	F1+
Superior Credit Quality	AA (high)	R-1 (high)	Aa1	P-1	AA+	A-1+	AA+	F1+
	AA	R-1 (mid)	Aa2	P-1	AA	A-1+	AA	F1+
	AA (low)	R-1 (mid)	Aa3	P-1	AA-	A-1+	AA-	F1+
Good Credit Quality	A (high)	R-1 (low)	A1	P-1	A+	A-1	A+	F1 or F1+
	A	R-1 (low)	A2	P-1	A	A-1	A	F1
	A (low)	R-1 (low)	A3	P-2	A-	A-2	A-	F2 or F1

Highest Credit Quality: The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.

Superior Credit Quality: The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.

Good Credit Quality: The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

4.4.5 Delegation of Authority

The Chief Financial Officer/Treasurer (CFO/Treasurer) has overall responsibility for the prudent investment of the investment portfolio and establishment of procedures consistent with this policy. The CFO/Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff. The Town’s banking authority by-law establishes the authority of the CFO/Treasurer or

an agent of the CFO/Treasurer to make investments on behalf of the town. No person may engage in an investment transaction except as provided under the terms of this policy.

The CFO/Treasurer or designate shall be authorized 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 in a manner that conforms to the *Municipal Act, 2001*, as amended and Town policies.

If an investment made subsequently falls below the standard credit rating or otherwise no longer meets the authorized limitation criteria, a plan will be created that includes expected timelines for selling the investment and sell the investment in accordance with the plan.

Those investments governed by the provisions of the “ONE Fund - The Public Sector Group of Funds” agreement shall be deemed delegated to that Agent.

4.4.6 Performance Benchmarks

The Town’s investment portfolio shall be designed with the objective of obtaining a market rate of return commensurate with the investment risk constraints and cash flow needs. Portfolio performance should be compared to benchmarks with similar maturity, liquidity and credit quality as the portfolio.

4.4.7 Standards of Care

Investments shall be 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 their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters dictated by the investment policy.

Investment officers shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make important investment decisions. Investment officers shall disclose to the Treasurer of the Town any material financial interests in financial institutions that conduct business within Canada, and they shall further disclose any significant personal financial or investment positions that could be related to the performance of the portfolios.

4.4.8 Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by the Town. All securities shall be held in the name of the Town.

The depository shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity and other pertinent information. The depository will also provide reports, which list all securities held by the Town, the book value of holdings and the market value.

5. Roles and Responsibilities

Individual(s)	Responsibilities
Town Council	<ul style="list-style-type: none"> i. Review the financial health of the Town as it relates to Treasury activities ii. Approve debt financing for certain capital projects as outlined through the budget process iii. Authorize transactions to and from reserves and reserve funds through the budget process or by specific resolution (for reserves) and by-laws (for reserve funds)
Chief Financial Officer & Treasurer	<ul style="list-style-type: none"> i. Oversee and recommend strategies to maintain the financial health of the Town as it relates to Treasury activities ii. Ensure reserves and reserve funds are established, maintained and used in compliance with this policy, PSAB and GAAP guidelines and governing legislation iii. Approve the timing of debt issuances iv. Report to Council the reserve balances and forecast as part of the annual budget approval process v. Ensure any investment that is not consistent with this policy is disposed of within prescribed timelines vi. Provide annual investment report to Council vii. Ensure all reporting requirements identified within this Policy are met
Financial Planning and Policy Team	<ul style="list-style-type: none"> i. Calculate the Growth-related Debt and Financial Obligation Limit for the Corporation as prescribed by the Municipal Act, 2001, as amended

	<ul style="list-style-type: none"> ii. Coordinate debt issuance requirements with the Region of Halton iii. Apply interest to Reserve Fund balances iv. Manage investment activities in accordance with legislation and policy v. Perform the transfers to and from reserves and reserve funds as authorized by Council vi. Monitor credit ratings of securities held in investment portfolio vii. Ensure that a Cash Management and Investment Procedure manual remains up to date and accessible to all investment officers and other relevant employees viii. Maintain and store all records in accordance with the Town's Retention By-law ix. Prepare year end audit files x. Support the CFO & Treasurer through preparing the reporting requirements for Council
<p>Department Director and department staff</p>	<ul style="list-style-type: none"> i. Provide the Financial Planning and Policy team with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves ii. Consult with the CFO & Treasurer when reserve funds are required for transactions

6. Policy Management

The Treasurer is delegated the authority to make administrative changes to this policy that may be required from time to time due to legislative changes, Council decisions, or if, in the opinion of the Treasurer, the amendments do not change the intent of the policy. Any changes made under this delegated authority shall be reported to Council on an annual basis.

7. Reporting

7.1 Debt

The Treasurer will provide annually to Council as part of the budget document pertaining to debt information on existing debt levels, remaining terms and projected future requirements based on long term capital needs. Outstanding debt obligations will also be reported annually as part of the year end process and financial statements.

7.2 Reserves and Reserve Funds

The Treasurer shall prepare and present to Council a statement of continuity for each reserve and reserve fund including the beginning and ending balances, as well as the total contributions and withdrawals for the period.

A forecast of reserve and reserve fund balances is to be prepared and submitted annually with the budget.

7.3 Investments

The CFO/Treasurer shall provide an annual investment report to Council and shall contain at a minimum:

- i. A statement about the performance of the portfolio of investments during the period covered by the Report;
- ii. The balance of the current outstanding investment portfolio;
- iii. A statement as to whether or not all investments were in accordance with the investment policies and goals of the Town;
- iv. If applicable, a description of the estimated proportion of investments that are invested in the Town's own long-term and short-term securities and a description of the change, if any, in the estimated proportion since the previous report;
- v. If applicable, 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; and
- vi. Contains such other information that the Council may require or that, in the opinion of the treasurer or designated agent of the treasurer, should be included.

If an investment made by the town is, in the Treasurer's or designated agent of the Treasurer's opinion, not consistent with the investment policies and goals adopted by the Town, the Treasurer shall report the inconsistency to Council within 30 days after becoming aware of it.

8. Related Policies, By-laws, Regulations, Legislation and Accounting Standards

To ensure the prudent fiscal management of the Town's financial resources, this policy shall be enforced in a manner that supports the following policies, By-laws, regulations, legislation, and accounting standards:

- Financial Management - Financial Principles No. 110
- Financial Management - Budget Management No. 113
- *The Municipal Act, 2001*
- *The Building Code Act*
- *The Planning Act*
- *The Development Charges Act, 1997*
- The prevailing Banking Authorities By-law for the Town of Milton

9. Definitions

- i. **Annual Debt Repayment Limit** - the maximum amount of annual debt servicing costs that a municipality can undertake or guarantee without seeking approval of the Ontario Municipal Board. This amount is determined for municipalities by the Province described in O. Reg. 403/02. This calculation limits annual debt service costs to 25% of operating income as reported in the municipality's audited financial statements.

- ii. **Area Municipality** - any municipality located within the Region of Halton
- iii. **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.
- iv. **Bail-in**: a resolution tool that the Canada Deposit Insurance Corporation can use to convert some of a failing domestic systemically important bank's debt into common shares in order to recapitalize the bank and allow it to remain open and operating.
- v. **Basis Point (BPS)**: a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.
- vi. **CHUMS Financing Corporation (CHUMS)**: a subsidiary of the Municipal Finance Officers Association of Ontario (MFOA) which in conjunction with the Local Authority Services Limited operates the ONE Investment Program.
- vii. **Credit Risk**: the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
- viii. **Debt** - any obligation for the payment of money. The Town considers debt to consist of Debentures, cash loans from financial institutions, capital leases, debenture financing approved through by-law but for which debt has yet to be issued, debenture financing approved through the capital budget but for which a by-law has yet to be established, outstanding financial commitments, loan guarantees, and any debt issues by, or on behalf of the Town, including mortgages, Debentures or demand loans.
- ix. **Debenture** - a formal written obligation to repay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured.
 - i. **Development Revenue Supported Debt** - debt issued in advance of development revenue collections. Debt charges for this type of debt are funded from development reserve funds.
 - ii. **Discount**: the amount by which the par value of a security exceeds the price paid for the security.
 - iii. **Diversification**: a process of investing assets among a range of security types by class, sector, maturity, and quality rating.
 - iv. **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.

- v. **Holding Period Classifications:**
 - a. **Cash Equivalent:** short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value
 - b. **Short-term:** securities with a holding period of less than one year.
 - c. **Long-term:** securities with a holding period of one year or greater.
- vi. **Liquidity:** a measure of an asset's convertibility to cash.
- vii. **Local Authorities Service Limited (LAS):** a subsidiary of the Association of Municipalities of Ontario ('AMO') which in conjunction with CHUMS operates the ONE Investment Program.
- viii. **Long Term Debt** - any Debt for which the repayment of any portion of the principal is due beyond one year
- ix. **Net Revenues** - total Town consolidated revenues less grants from other levels of government less sales of land and development revenues earned. These revenues do not include donations of tangible capital assets.
- x. **Non Tax Supported Debt** - long-term indebtedness payable from sources other than property tax revenues
- xi. **Market Risk:** the risk that the value of a security will rise or decline as a result of changes in market conditions.
- xii. **Market Value:** current market price of a security.
- xiii. **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".
- xiv. **ONE Investment Program:** a professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the *Municipal Act, 2001*.
- xv. **Ontario Municipal Board** - is an independent administrative board, operated as an adjudicative tribunal, in the province of Ontario. It hears applications and appeals on municipal and planning disputes as well as other matters specified in provincial legislation.
- xvi. **Own Source Revenues** - revenue for a fiscal year, excluding:
 - a. Grants from the Government of Ontario or Canada or from another municipality
 - b. Proceeds from the sale of real property

- c. Contributions or net transfers from a Reserve or Reserve Fund
 - d. Development Revenues
 - e. Government of Ontario revenues received for the purpose of repaying the principal and interest of Long-Term Debt, toward meeting financial obligations of the municipality
- xvii. **Par:** the face value or principal value of a bond.
- xviii. **Premium:** the amount by which the price paid for a security exceeds the security's par value.
- xix. **Principal:** the face or par value of a debt instrument or the amount of capital invested in a given security.
- xx. **Prudent Person Rule:** an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.
- xxi. **Rate of Return:** the yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.
- xxii. **Reserves-** an appropriation of net revenues set aside at the discretion of Council to assist the maintenance of its financial position. It does not require the segregation of assets, and may be established for any municipal purpose. Typically, reserves support the operating budget. Since they are typically shorter term in nature, reserves do not receive an annual interest allocation.
- xxiii. **Reserve Funds** -established through a by-law of Council, or by a requirement of federal or provincial legislation i.e. Development Charges Act, for a specific purpose and segregated from general revenues of a municipality to meet the financial requirements of a future event. Typically, reserve funds support the capital budget. Reserve Funds may be discretionary or obligatory. Reserve Funds receive an annual interest allocation based on the average annual balance.
 - a. **Obligatory Reserve Funds** - Monies set aside and legally restricted by provincial legislation, a municipal by-law, or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose. Examples include Development Revenues, Cash In Lieu of Parkland and Gas Tax Reserve Funds
 - b. **Discretionary Reserve Funds** - Monies set aside for a specific purpose by Council and legislated by municipal by-law. If Council should decide to spend the money for purposes other than what it was originally intended for, then a new by-law must be passed under section 4174 (4) of the *Municipal Act, 2001*.
- xxiv. **Schedule I banks:** Schedule I banks are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.
- xxv. **Schedule II banks:** Schedule II banks are foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the

Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

- xxvi. **Security:** an exchangeable, negotiable instrument representing financial value. Securities are broadly categorized into debt securities (such as banknotes, bonds and debentures) and equity securities e.g. common stocks and derivatives contracts, such as forwards, futures, options and swaps.
- xxvii. **Sinking Fund:** money accumulated on a regular basis, through regular contributions and interest earnings, in a separate custodial account that is used to redeem debt securities by a specified date.
- xxviii. **Tax Supported Debt** - long-term indebtedness payable from property tax revenues
- xxix. **Temporary Borrowing** - Debt for which the repayment of the entire principal is due within one year or in the case of funding for a capital project, borrowing until Long-Term Debt to cover the costs is obtained or issued.
- xxx. **Weighted Average Maturity (WAM):** the average maturity of all the securities that comprise a portfolio.
- xxxi. **Yield to maturity (YTM):** the annual return on a bond held to maturity when interest payments and price appreciation (if priced below par) or depreciation (if priced above par) are considered.

10. History of the Policy

Last Amended: March 17, 2025 (ES-009-25)

Originally Approved: July 20, 2020 (CORS-039-20) and subsequently amended April 11, 2022 (CORS-024-22).

Previous Policies: This policy originally replaced the following former policies:

- Policy 61: FINANCIAL - Cash Management & Investments
- Policy 96: Reserve Funds
- Policy 98: Revenue - OLG Revenue
- Debt Management (was previously part of Policy 22: Budget Capital)