



SUBJECT: Investment Policy updates

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-50-17

Wards Affected: not applicable

File Numbers: 401-13

Date to Committee: November 27, 2017

Date to Council: December 11, 2017

Recommendation:

Approve the updated Investment Policy as outlined in Appendix A to finance department report F-50-17.

Purpose:

An Engaging City

- Good Governance

Background and Discussion:

The City's Investment Policy is reviewed annually to determine if changes are needed. The last update was approved by Council in report F-27-16 on July 4, 2016. The current investment policy was updated in order to provide an enhanced platform to sustain the level of investment income while following legislation. The update was to increase the investment level allowed for specified municipal bonds.

The nature of the investment market is associated with world events such as a liquidity crisis, war, terrorism and world tragedies, which make the market very volatile. As a result of these continuing economic conditions the Bank of Canada has been keeping interest rates low in order to stimulate the economy. With this trend anticipated to continue for another 2-3 years, additional refinement to the investment policy is considered necessary in order to maximize the City's return on investment potential. An

annual review of the investment policy is considered essential in order to adjust the policy to reflect the current economic environment.

The current investment policy limits the amount of short term investments invested with credit unions to \$20 million per institution for a period of 90 days. Credit unions typically pay a slightly higher rate than banks on short term investments. Therefore it is recommended that an amount equal to the quarterly requisition amount paid to the Region and School Boards be allowed to be invested in Credit Unions for a term of up to 180 days. This provides the potential to earn a slightly higher rate of interest while providing the flexibility to maintain liquidity to meet the City's obligations.

Given the anticipated ongoing conditions in the market, an additional change is recommended to the City's Investment Policy in keeping with the following objectives:

- Adherence to legislative and statutory requirements
- Preservation of principal
- Maintenance of liquidity
- Rating the risk of securities and institutions
- Competitive return on investments
- Safeguarding of investments certificates and detail record keeping
- Regular review of the effectiveness of the policy in meeting the above objectives

The change being recommended not only addresses the market place today but also provides for future market opportunities.

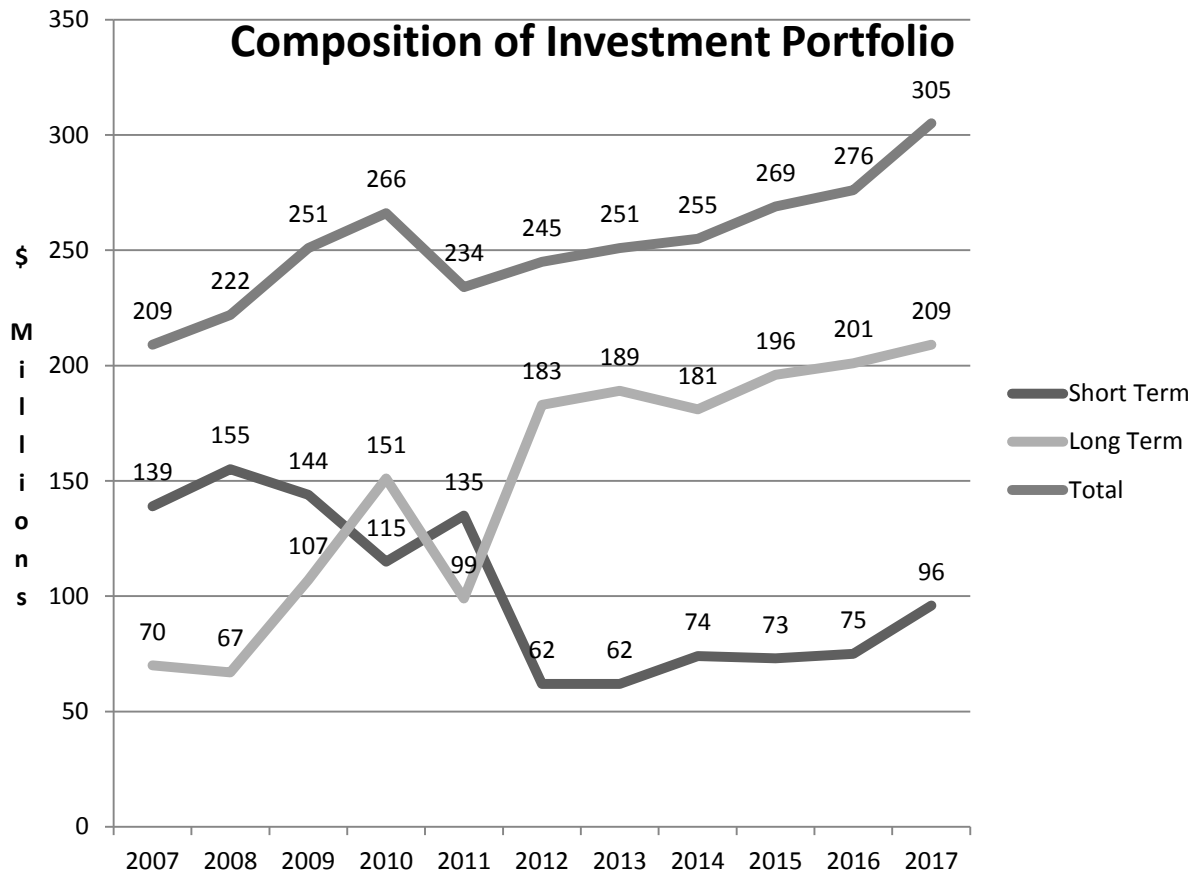
Recommendation

To increase the maximum value of short term investments with Credit Unions to an amount equivalent to the expected requisition amount to be paid out to the Region and School Boards for taxes collected on their behalf, and also, to change the investment period from a maximum of 90 days to a maximum of 180 days. Regulation 438/97 section 2 (1) (iv) permits municipalities to invest with credit unions.

The recommendation complies with legislative and statutory requirements and supports all objectives as set out in the current Investment Policy.

Financial Matters:

Since the City's Investment Policy was first established in 1987, the City's investment portfolio has continued to grow. The following chart, showing balances as at Sept of each year, illustrates the growth and change in composition of the City's portfolio:



The interest income generated by the City's investments is an important component of the City's operating revenues. Over the last two years the City's Interest earned on investments including capital gains has been \$10 million.

Prudent Investor Status

Since 2016 the province has been undertaking a review and revision of the *Municipal Act*, 2001. One of the proposals arising from this review is to allow eligible municipalities to adopt prudent investor status by by-law which would allow municipalities to invest in equities and potentially increase investment income. The prudent investor standard includes a duty to obtain advice that a prudent investor would obtain under comparable circumstances. Although this section of the act has not yet been passed into law, proposed regulations have been released for comment.

The proposed regulations would require the municipality to establish an investment board which would be a municipal service board and would be responsible for control and management of the city's investments. It cannot include members of council or staff with the exception of the City Treasurer.

The City of Toronto was granted this status effective Jan 1, 2018. As a result it has recommended to council to establish an investment board with a portfolio of \$5 billion with an expected interim cost of \$557,500.

It is important to consider that if a municipality opts in by by-law, it cannot opt out unless a future regulation is passed permitting it to invest again in accordance with the current prescribed list of eligible investments. The prudent investor standard continues to apply to a municipality whether or not a municipality continues to satisfy the criteria. The eligibility criteria currently proposed are:

- Individual municipalities that have a net financial assets balance of more than \$50 million can opt in by by-law.
- Municipalities with an aggregate investment balance of \$100 million can opt in by by-law.

At this time, the option to pass a by-law to establish prudent investor status is not recommended due to the cost and resources required to establish an investment board for a relatively small portfolio.

Staff continue to monitor developments related to the prudent investor standard and consult with our neighbouring municipalities. As the regulations governing this proposed change to the *Municipal Act*, 2001 become finalized, staff will report back in future annual investment policy reviews.

Conclusion:

Staff believe the recommended change to the investment policy will provide an enhanced platform to sustain the level of investment income, while maintaining appropriate control over the investment portfolio, preserving principal and maintaining liquidity.

Respectfully submitted,

Sandy O'Reilly

Controller and Manager of Financial Services

Ext 7648

Appendices:

A. Investment Policy

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.