



SUBJECT: Interest Allocation Policy

TO: Mayor and Members of Council

FROM: Finance Department

Report Number: F-48-20

Wards Affected: Not applicable

File Numbers: 125-01

Date to Committee: Select date

Date to Council: October 19, 2020

Recommendation:

Approve the allocation of interest policy as presented in Municipal Officers report F-48-20.

PURPOSE:

The purpose of the report is to recommend an interest allocation policy for surplus interest received as the result of the City's investment activities.

Background and Discussion:

The City's investment portfolio includes reserves/reserve funds, trusts, unexpended capital fund balances and surplus operating funds. These funds are invested in accordance with the Ontario *Municipal Act 2001 S. 418-420* and the City's Council approved investment policy. Eligible investments are prescribed by the *Ontario Regulation 438/97* and all investments must be invested in Canadian dollars.

The City's investment policy has as 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 investment certificates and detail record keeping

- Regular review of the effectiveness of the policy in meeting the above objectives

This investment generates investment income in the form of interest and capital gains. Capital gains/losses are allocated to the operating budget. Due to the difficulty in predicting the future level of realized capital gains/losses they are unbudgeted.

Strategy/process

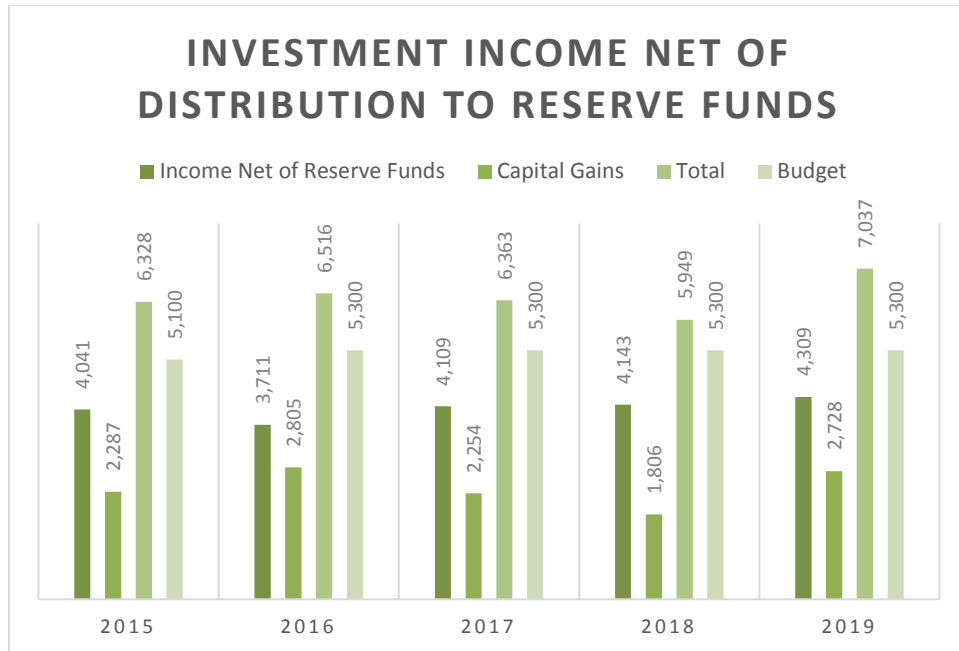
Gross investment income (\$10.1 million in the 2019 Consolidated Financial Statements) is currently allocated proportionately to the operating budget and reserve funds net of the operating costs of the investment program which currently include the salary and benefits of one staff, bank charges, custodial fees and market monitoring services. The proposed policy would allocate capital gains in excess of the investment income operating budget amount equally to the infrastructure renewal reserve fund and tax rate stabilization reserve fund. The capital gains earned by the investment strategy would then be used to assist in addressing the infrastructure funding gap as well as be available to address pressures on the tax rate through the tax rate stabilization fund. The allocation to the tax rate stabilization fund would offset the reduction in capital gains to the operating budget as is currently done. Key to this strategy is to continue not to budget for capital gains which remain difficult to predict.

Options Considered

The current process of allocating investment income including capital gains to the reserve funds and operating budget net of administrative costs of the investment program could be maintained. These funds then become part of retained savings to be allocated in accordance with the retained savings policy.

Financial Matters:

Investment income net of administrative costs and distribution to reserve funds and capital gains for the past five years as compared to budget are illustrated in the following chart:



Conclusion:

Transferring capital gains over the budgeted investment income could assist in mitigating the impact of future operating budgets for unexpected impacts on the tax rate as well as assist in reducing the infrastructure funding gap.

Respectfully submitted,

Sandy O'Reilly

Controller and Manager of Financial Services

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Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Council. Final approval is by the City Manager.