

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 23, 2015

Item 5, Report No. 10, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 23, 2015.

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2014 ANNUAL INVESTMENT REPORT

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Development Finance and Investments, dated June 15, 2015:

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Development Finance and Investments recommend that:

1. This report be received for information.

Contribution to Sustainability

Not applicable.

Economic Impact

Investment income generated from the investment portfolio in 2014 amounted to \$13.78 million. The majority of this balance was distributed to the City's reserve funds and the remaining portion to the operating budget, which helps to reduce the need for tax based funding. The Operating Budget for 2014 Investment Income was \$2.525 million. The actual Investment Income allocated to the Operating Budget was \$2.84 million, which provided a favourable balance of \$0.319 million. It should be noted that the City also receives investment income through its wholly owned Vaughan Holdings Inc., which in turn owns a 45.3% share of PowerStream Inc. This report does not include the investment income from that corporation as these details are provided to Council through separate reports and can be found in the City's Financial Statements. The investment income from the promissory note to PowerStream Inc., is, however, combined in to this report as it is unrelated to the equity investment, but is a separate instrument.

Communications Plan

Not applicable.

Purpose

To report to Council on the City's investment portfolio activities during the year 2014, as required by Ontario Regulation 438/97 (as amended) of the *Municipal Act* and the City's Investment Policy.

Background - Analysis and Options

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97, as amended to O. Regulation 292/09 outlines the criteria for eligible investments. The City's updated investment policy approved by Council in April 2015 conforms to this legislation and acts as the governing parameters in managing the City's investment portfolio.

The reporting requirements in the City's investment policy and the Municipal Act require the Treasurer or designate to submit an investment report to Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. The report submitted to Council each year should contain the following:

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- a) Listing of individual securities held at the end of the reporting period;
- b) Listing of investments by maturity date;
- c) Realized and unrealized gains or losses resulting from investments that were not held until maturity;
- d) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;
- e) Percentage of the total portfolio which each type of investment represents; and
- f) A statement about the performance of the investment portfolio during the period covered by the report;

The Development Finance & Investment Department manages the investment portfolio for the City with a maturity value of approximately \$565.31 million (cash and investments) at December 31, 2014 (\$504.98 million 2013), (Attachment 1). These funds represent the funding requirements for day to day operations of the Corporation and represent investment funds held in the reserves, reserve funds, working capital and other funds of the organization. The fluctuation in balance from year to year can be attributed to many factors including: timing of major payments, timing of property tax and development charge revenue and timing of transfers of these revenues to the Region. The credit quality of all investments is in compliance with the City's Investment Policy and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

The 2014 Economic and Capital Market Environment continued to be at a low

Heading into 2014, the expectation was that the Canadian economy would continue to recover and economic activities would continue to improve. The same scenario was expected in the U.S. and the U.S Federal quantitative easing program (designed to keep long bond rates low) was fully withdrawn. Rates were expected to rise.

Despite all this, the market saw a sharp drop in long term rates this year, rather than increasing as had been expected. The sudden plunge in oil prices, renewed geopolitical tensions, and a drop in global economic confidence resulted in investors seeking a safe haven in the bond market, driving long rates lower. The Canadian 10-year Government bond fell from a yield of 2.75% to 1.78% at the end of 2014.

The Bank of Canada surprised the market by cutting the overnight bank rate at the start of 2015 from 1.00% to 0.75%. The cut was intended to provide insurance against the risks of the falling oil price and global uncertainties and bring the Canadian economy back to full capacity and inflation to target. In fact, rates in Canada and globally are lower for longer than anyone had forecasted and conditions for economic growth is still far from certain.

2014 City of Vaughan Investment Performance has not changed significantly from 2013

During 2014 the investment portfolio generated investment income in the amount of \$13.78 million. As a basis of year over year comparison, the City's investment income was \$13.82 million in 2013. The modest decline in 2014 investment income was due to a lower average amount invested in the long term portfolio, as historically higher yield bonds matured in 2014. There were no realized or unrealized gains or losses resulting from investments that were not held until maturity in 2014.

The Money Market portfolio (total holdings of \$427.50 million) averaged a rate of return of 1.40% outperforming the 90 day average T-bill rate of 0.91%. The Bond Fund portfolio (total holdings of \$99.22 million) averaged earned income rate of return was 5.22%. Earned income return includes interest income and realized capital gains/losses. The earned income return is used to determine the allocation of investment earnings to the City's reserve funds and operating budget. As indicated in the updated Investment Policy report provided to Council in April 2015, more

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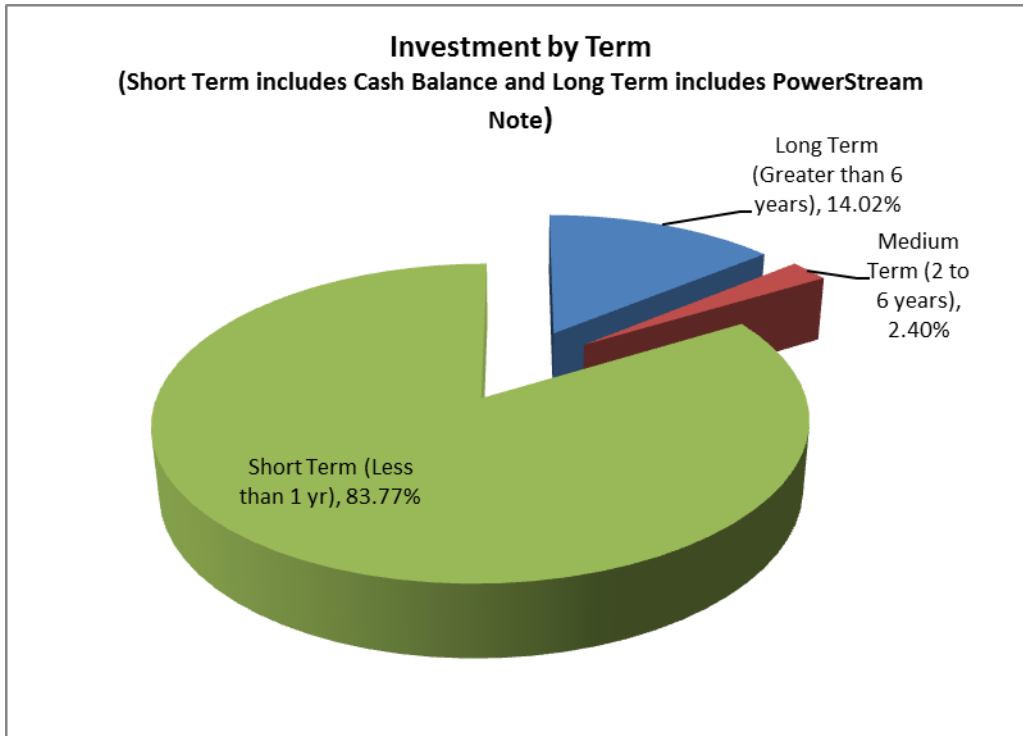
benchmarks will be added for the evaluation of the 2015 investment performance in an effort to continuously improve performance reporting.

A large amount of cash is being held in the City’s bank account due to the higher rate of return than that of Money Market instruments. At the end of the year the bank account earned a rate of return of 1.25% while according to a Bank of Canada statistic a Money Market instrument earned an average 1.19% resulting in a high cash balance in the City’s bank account.

Over the past number of years, the City’s investment program has changed its focus from just providing liquidity for the day-to-day operations to a long term reserve management. This change focused on transforming the investment portfolio from a short term money market portfolio to one that is more diversified in terms of credit and term exposure. Given the economic conditions seen in 2014 this long term focus has not yet come to fruition, but is expected to increase in to 2015 and 2016.

Summary of Holdings

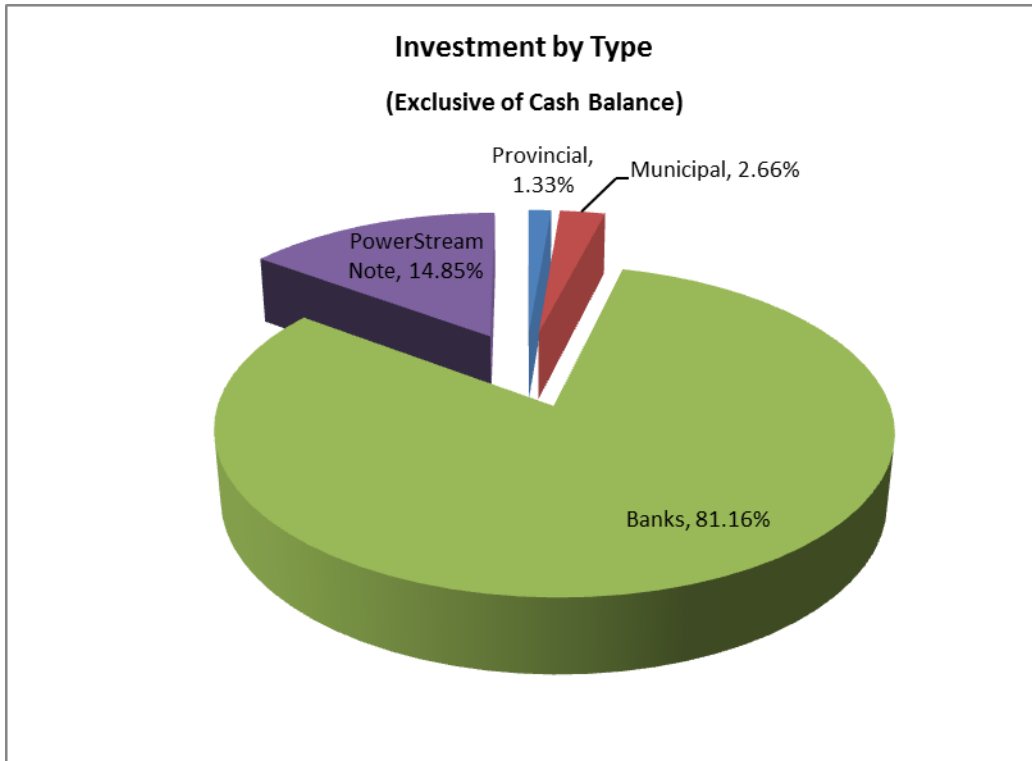
The following charts provide a summary overview of the City’s current holdings by both term (cash balance is considered “Short Term”) and by type (excludes cash balance). The details of these holdings may be found in Attachments 1 and 2.



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2015 Performance Expectations

On January 21, 2015, the Bank of Canada cut its overnight rate by 0.25% to 0.75%. The bank rate cut was not only unexpected, but more importantly, caused a **sharp** downward movement on the yields (returns) across all of the money market instruments that the City invests in. The rate cut not only pushed investment yields to new all-time lows, but also created uncertainties on the City's investment income budget. If this low rate environment persists, it may result in a negative impact to the City's 2015-2016 investment income budget.

Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds that will have higher yields. However, given the prevailing low rate environment, patience will need to be exercised with these long bond purchases. Currently, the City's portfolio is predominately short term (over 80% of holdings) and is well positioned to take advantage of changing market conditions and a rising rate environment when rate increases do materialize. An Investment Policy update report, approved by Council on April 21, 2015, was intended to mitigate some, but not all of these uncertainties and to create more flexibility to maximize investment income in a low interest rate environment. It should be expected that investment performance will remain largely unchanged over the next few years given the economic environment and the assumption that the total portfolio (reserve levels) is not expected to change to a large degree.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable.

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Conclusion

In 2014 the City's investment portfolio generated investment income of 13.78 million. Investment income revenue contributes to reserves and reduces the need for tax based funding. Investments were in compliance with the City's Investment Policy approved by Council on April 21, 2015 and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

Attachments

1. Listing of Securities Held As At December 31, 2014
2. Investments Held by Institution

Report prepared by:

Alex Ly, CFA, CGA
Senior Analyst, Development Finance and Investments

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

2014 ANNUAL INVESTMENT REPORT

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Development Finance and Investments recommend that:

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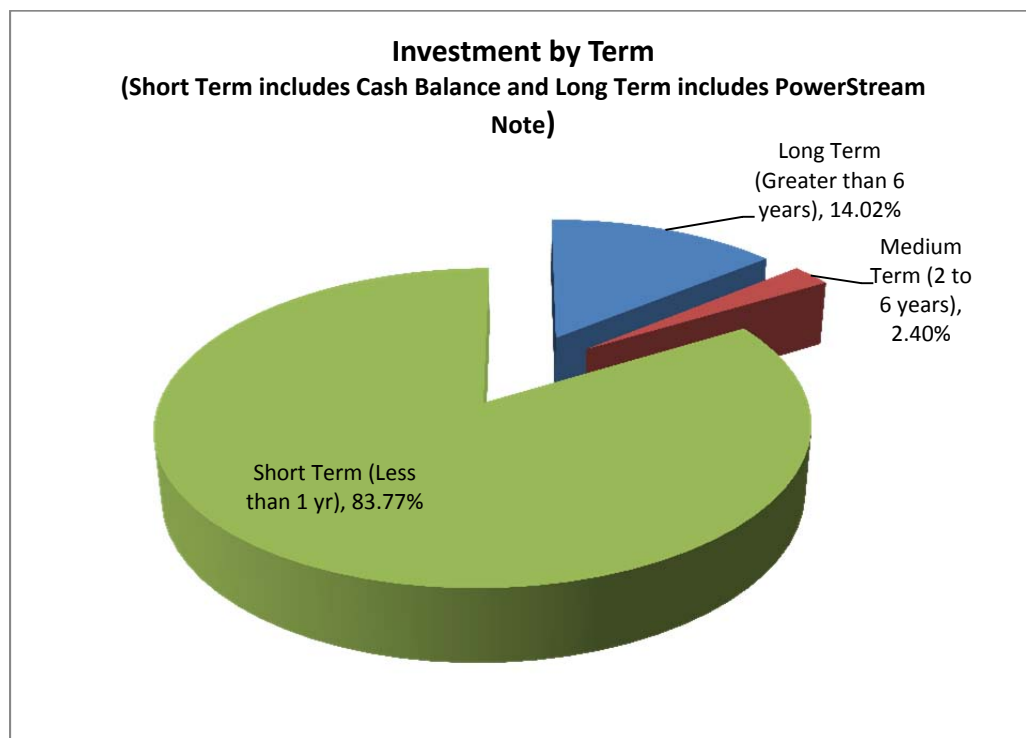
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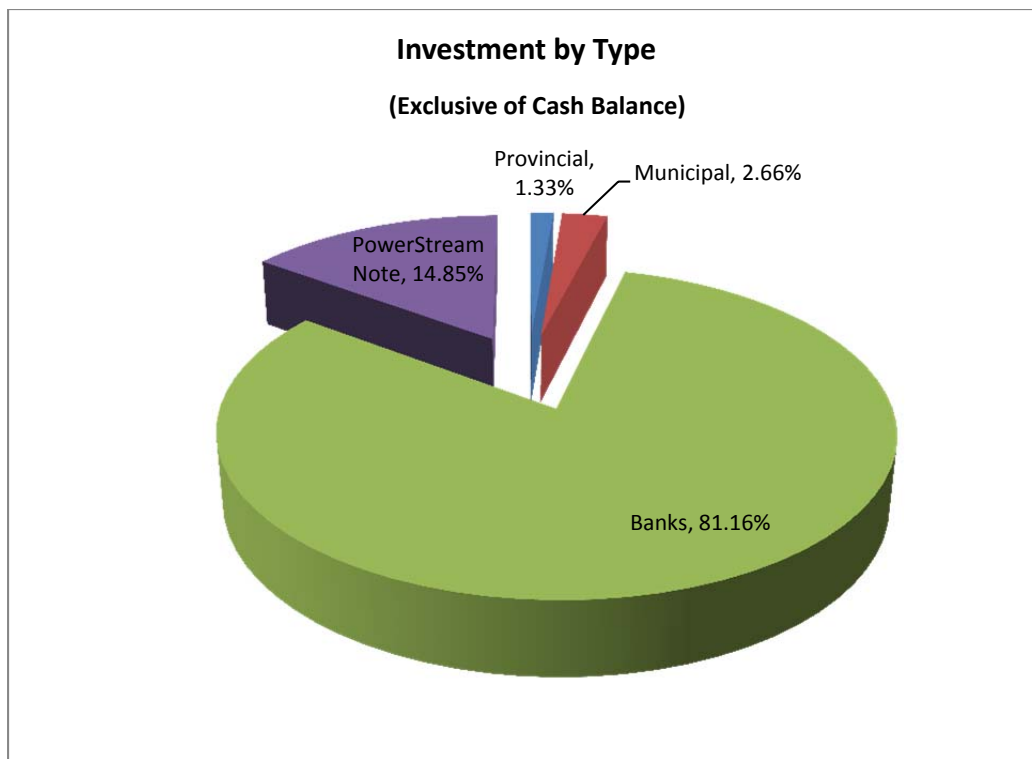
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Report prepared by:

Alex Ly, CFA, CGA
Senior Analyst, Development Finance and Investments

Respectfully submitted,

John Henry, CPA, CMA
Commissioner of Finance / City Treasurer

Lloyd Noronha, CPA, CMA
Director of Development Finance and Investments

City of Vaughan
Investments Held by Issuer
December 31, 2014

Issuer	Amount	Policy Limit	% of Limit	% of Total
Provincial				
<u>Short Term:</u>				
Province of Ontario	-	131,680,571	0.0%	0.0%
Province of British Columbia	-	131,680,571	0.0%	0.0%
Total (Short Term)	-	421,377,828	0.0%	0.0%
<u>Long Term</u>				
Province of Ontario	4,000,000	131,680,571	3.0%	0.8%
Province of Alberta	3,000,000	131,680,571	2.3%	0.6%
Province of British Columbia	-	131,680,571	0.0%	0.0%
Subtotal- AAA/AA	7,000,000	368,705,600	1.9%	1.3%
Province of Manitoba	-	79,008,343	0.0%	0.0%
Subtotal- A	-	131,680,571	0.0%	0.0%
Provincial Total	7,000,000	421,377,828	1.7%	1.3%
Municipal				
<u>Long Term</u>				
Regional Municipality of York	8,100,000	52,672,229	15.4%	1.5%
Region of Halton	2,000,000	52,672,229	3.8%	0.4%
BC Municipal Finance Authority	-	52,672,229	0.0%	0.0%
Subtotal- AAA	10,100,000	184,352,800	5.5%	1.9%
City of Edmonton	1,600,000	26,336,114	6.1%	0.3%
City of Hamilton	-	26,336,114	0.0%	0.0%
City of Peterborough	2,286,000	26,336,114	8.7%	0.4%
City of Toronto	-	26,336,114	0.0%	0.0%
Subtotal- AA	3,886,000	79,008,343	4.9%	0.7%
Municipal Total	13,986,000	184,352,800	7.6%	2.7%
Banks				
<u>Short Term:</u>				
Bank of Montreal	40,000,000	131,680,571	30.4%	7.6%
CIBC	10,000,000	131,680,571	7.6%	1.9%
Royal Bank of Canada	7,500,000	131,680,571	5.7%	1.4%
Bank of Nova Scotia	50,000,000	131,680,571	38.0%	9.5%
Toronto Dominion Bank	120,000,000	131,680,571	91.1%	22.8%
Total (Short Term)	227,500,000	421,377,828	54.0%	43.2%

TD High Interest Account	✓	200,000,000			38.0%
<u>Long Term:</u>					
Toronto Dominion Bank	✓	-	52,672,229	0.0%	0.0%
Bank of Montreal	✓	-	52,672,229	0.0%	0.0%
Bank of Nova Scotia	✓	-	52,672,229	0.0%	0.0%
Royal Bank of Canada	✓	-	52,672,229	0.0%	0.0%
Subtotal Banks	✓	-	105,344,457	0.0%	0.0%
Total Banks	✓	427,500,000	421,377,828		81.2%
<u>Other:</u>					
PowerStream		78,236,285	n/a		14.9%
Total Other	✓	78,236,285			14.9%
<hr/>					
Total*	✓		\$526,722,285		

* excludes cash in bank