

## CITY OF VAUGHAN

### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

Item 5, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2017.

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#### 2016 ANNUAL INVESTMENT REPORT

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer, dated June 6, 2017:

##### Recommendation

The Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer recommend that:

1. This report be received for information.

##### Contribution to Sustainability

The income generated from the City's investment portfolios ensure sustainable fiscal management of City's assets.

##### Economic Impact

Investment income generated from the investment portfolio in 2016 amounted to \$13.15 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 tax levy requirement. The Operating Budget for 2016 Investment Income was \$2.25 million. The actual Investment Income allocated to the Operating Budget was \$2.68 million, which resulted in a favourable variance of \$0.43 million. At December 31, 2016, the portfolio value of \$585.90 million earned a weighted average yield of 1.84%

The City's investment portfolio included a promissory note from PowerStream (now Alectra) but excludes the City's investment in Vaughan Holdings Inc. Dividends received from Vaughan Holdings Inc. are reported separately through the City's quarterly Fiscal Health reports.

##### Communications Plan

The report is available publicly on the Agenda, Minutes & Extract page of the City's website ([www.vaughan.ca](http://www.vaughan.ca)).

##### Purpose

To report to Council on the City's investment portfolio activities during the year 2016, 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, outlines the criteria for eligible investments. The City's investment policy, approved by Council on 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 that the Treasurer, or designate, submit an investment report to Council at least annually, including a

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### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

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management summary that provides an analysis of the status of the current investment portfolio and transactions completed over the last year. The report submitted to Council each year shall contain the following:

- 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) Percentage of the total portfolio which each type of investment represents; and
- e) A statement about the performance of the investment portfolio during the period covered by the report;

The Financial Planning and Development Finance Department manages the investment portfolio for the City with a maturity value of approximately \$662.49 million (cash and investments) at December 31, 2016 (\$571.32 million 2015), (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. Reserves and Reserve funds are classified as obligatory or discretionary. Obligatory reserves are funds that are kept for specific purposes in accordance with provincial statutes and may have regulations that prescribe such items as their specific purpose, contributions, uses, and restrictions. Discretionary reserves provide the City with financial flexibility in order to safeguard against economic downturns and finance operations internally. 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*.

#### ***Economic growth in 2016 was modest while long-term bond yields rose***

Canadian economic growth regained some momentum during the second half of the year. The adjustment of the Canadian economy to low commodity prices is well under way. Growth is supported by accommodative monetary policy and fiscal measures.

Yields on Canadian long-term bonds reached a new cyclical low in July. However, in November, yields rose as market participants revised up their expectations of US economic growth and the Federal Reserve raised rates in December. The Canadian 10 year Government bond yield rose from a low of 0.95 per cent to 1.72 per cent at the end of 2016.

#### ***2016 City of Vaughan Investment***

During 2016 the investment portfolio generated investment income in the amount of \$13.15 million. As a basis of year over year comparison, the City's investment income was \$12.67 million in 2015. The increase in 2016 investment income was due to higher than average amount of funds available and higher investment in the long term portfolio. There were no realized gains or losses resulting from investments that were not held until maturity in 2016.

The Money Market portfolio (total holdings of \$465 million) averaged a rate of return of 1.30 per cent outperforming the 90 day average T-bill rate of 0.49 per cent. The cash balance held in the City's bank account earned an average rate of return of 1.00 per cent, which is 18 basis points higher than the average one month BA Money Market instrument. The Bond Fund portfolio (total holdings of \$113.49 million) averaged an earned income rate of return of 4.69 per cent. 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.

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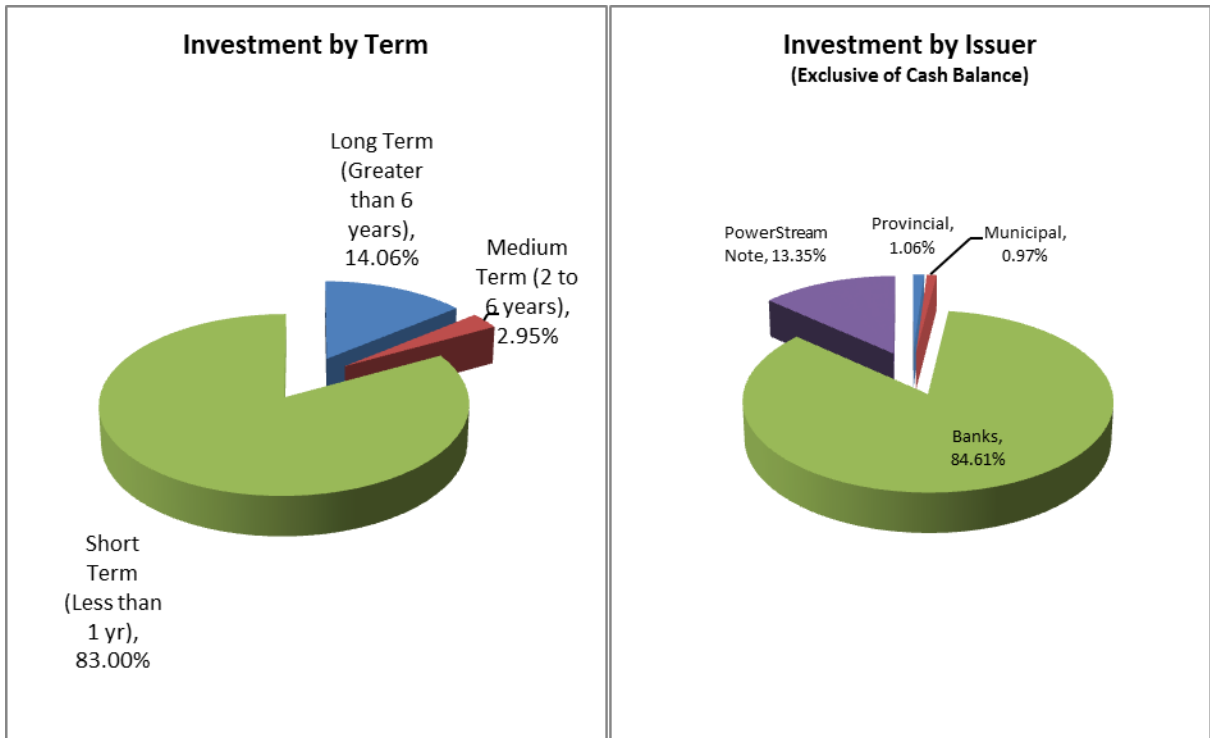
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Over the past number of years, the City's investment program has changed its focus from just providing liquidity for the day-to-day operations to long-term reserve management. This change focused on transforming the investment portfolio from a short term money market focused portfolio to one that is more diversified in terms of credit and term exposure. The shift to reserve management is to align with the City's fiscal framework and long term financial sustainability. Given the economic conditions seen in 2016, this long term focus has yet to be fully implemented, but investments were made in the latter half of 2016 as long bond yields started to move higher. It is expected that the long term focus will continue in to 2017 and 2018.

**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 issuer (excludes cash balance). The details of these holdings may be found in Attachments 1 and 2.



**2017 Performance Expectations**

Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds that will have higher yields. Staff have begun to make investments in long-term bonds as required. Currently, the City's portfolio is predominately short term and is positioned to take advantage of changing market conditions and a rising rate environment.

Early in 2017, the City provided Vaughan Holdings Inc.(VHI), a wholly owned entity of the City, with additional fund for the closing the merger of PowerStream (now Alectra). The VHI equity injection of \$69.51M reduced the City's overall available cash for money and bond market investments. The impact will be a reduction of interest income from the City's investment portfolio. However, it expected that over the next 10 years, the equity investment by VHI will result in higher dividend income that will more than offset the reduction in interest income from the City's investment portfolio.

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**Regional Implications**

Not applicable.

**Conclusion**

In 2016 the City's investment portfolio generated investment income of 13.15 million. Investment income revenue contributes to reserves and reduces the tax levy requirement. Investments were in compliance with the City's Investment Policy approved by Council on April 2015 and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

**Attachments**

- 1 – Listing of Securities Held As At December 31, 2016
- 2 – Investments Held by Issuer

**Report prepared by:**

Alex Ly, Senior Financial Analyst, 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.)

**2016 ANNUAL INVESTMENT REPORT**

**Recommendation**

The Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer recommend that:

1. This report be received for information.

**Contribution to Sustainability**

The income generated from the City's investment portfolios ensure sustainable fiscal management of City's assets.

**Economic Impact**

Investment income generated from the investment portfolio in 2016 amounted to \$13.15 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 tax levy requirement. The Operating Budget for 2016 Investment Income was \$2.25 million. The actual Investment Income allocated to the Operating Budget was \$2.68 million, which resulted in a favourable variance of \$0.43 million. At December 31, 2016, the portfolio value of \$585.90 million earned a weighted average yield of 1.84%

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### ***2016 City of Vaughan Investment***

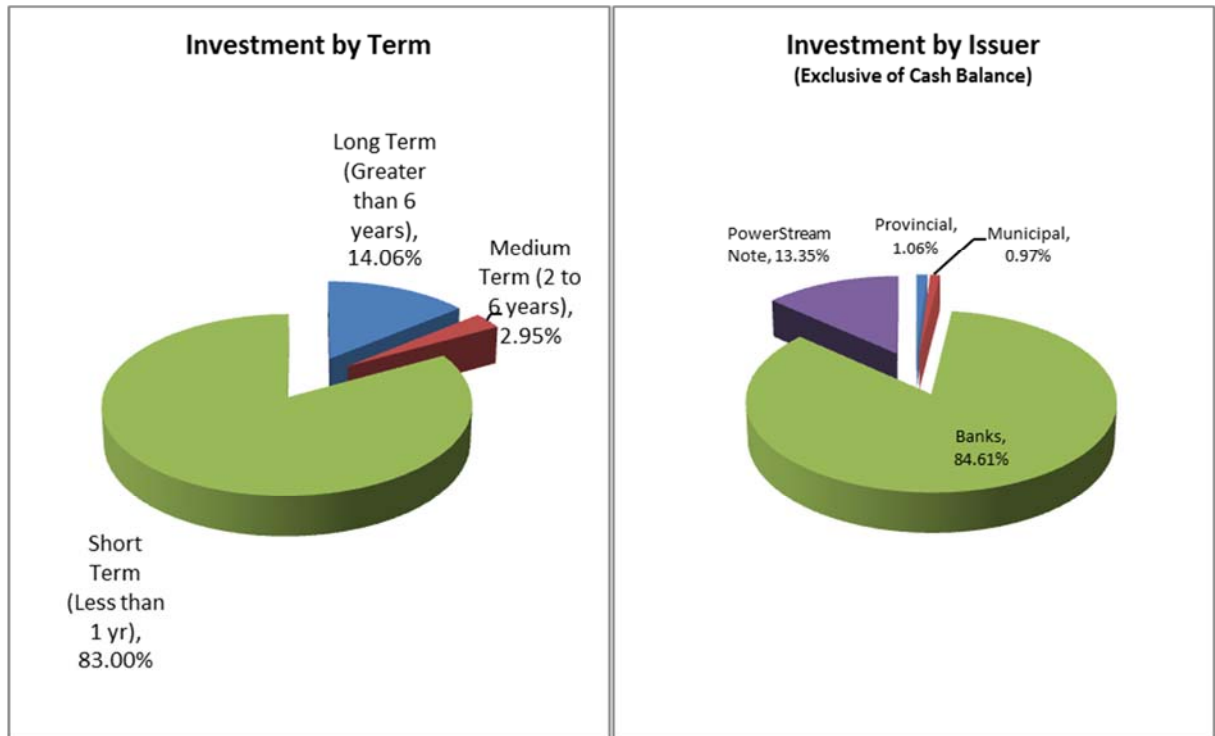
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## **Attachments**

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## **Report prepared by:**

Alex Ly, Senior Financial Analyst, Investments

Respectfully submitted,

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Laura Mirabella-Siddall, CPA, CA  
Chief Financial Officer and City Treasurer

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Lloyd Noronha, CPA, CMA  
Director of Financial Planning & Development Finance &  
Deputy City Treasurer



City of Vaughan Investments - as at December 31, 2016					
Security Description	Maturity Date	Par Value	Base Cost	Yield <sup>1</sup>	Type*
Scotia	30-Jun-17	10,000,000	10,000,000	1.20%	M
Scotia	30-Jun-17	40,000,000	40,000,000	1.20%	M
Scotia	30-Jun-17	10,000,000	10,000,000	1.20%	M
NB GIC	19-Jan-17	20,000,000	20,000,000	1.71%	M
RBC GIC	23-Mar-17	5,000,000	5,000,000	1.55%	M
NB GIC	4-Apr-17	10,000,000	10,000,000	1.71%	M
BMO GIC	3-May-17	10,000,000	10,000,000	1.70%	M
NB GIC	11-May-17	10,000,000	10,000,000	1.66%	M
VanCity CU	11-May-17	10,000,000	10,000,000	1.46%	M
RBC GIC	30-May-17	5,000,000	5,000,000	1.60%	M
BNS GIC	30-May-17	5,000,000	5,000,000	1.60%	M
RBC GIC	28-Jun-17	5,000,000	5,000,000	1.60%	M
BNS GIC	28-Jun-17	5,000,000	5,000,000	1.60%	M
BMO GIC	25-Jul-17	15,000,000	15,000,000	1.65%	M
BNS GIC	25-Jul-17	5,000,000	5,000,000	1.60%	M
BNS GIC	27-Jul-17	5,000,000	5,000,000	1.60%	M
BNS GIC	28-Jul-17	25,000,000	25,000,000	1.60%	M
BMO HISA	31-May-17	10,000,000	10,000,000	1.15%	M
NB GIC	18-Aug-17	15,000,000	15,000,000	1.65%	M
NB GIC	24-Aug-17	15,000,000	15,000,000	1.60%	M
CIBC GIC	30-Aug-17	15,000,000	15,000,000	1.60%	M
NB GIC	21-Sep-17	10,000,000	10,000,000	1.54%	M
BMO GIC	29-Sep-17	15,000,000	15,000,000	1.55%	M
NB GIC	29-Sep-17	15,000,000	15,000,000	1.55%	M
BMO HISA	26-Jan-17	25,000,000	25,000,000	1.15%	M
CIBC GIC	18-Oct-17	20,000,000	20,000,000	1.55%	M
TD Term Dep	18-Jan-17	20,000,000	20,000,000	1.25%	M
TD Term Dep	30-Jan-17	15,000,000	15,000,000	1.25%	M
NB GIC	26-Oct-17	15,000,000	15,000,000	1.55%	M
TD Term Dep	31-Jan-17	15,000,000	15,000,000	1.24%	M
BMO HISA	31-May-17	15,000,000	15,000,000	1.15%	M
NB GIC	16-Nov-17	20,000,000	20,000,000	1.60%	M
TD Term Dep	13-Feb-17	30,000,000	30,000,000	1.24%	M
PROV OF MANITOBA 2.45%	2-Jun-25	2,000,000	2,017,785	2.33%	B
PROV OF ONTARIO 2.85%	2-Jun-23	2,000,000	2,113,137	1.91%	B
PROV OF BRITISH COLUMBIA 2.7%	18-Dec-22	2,000,000	2,089,411	1.90%	B
CITY OF EDMONTON 8.5%	14-Sep-18	1,600,000	1,696,423	4.72%	B
YORK ONTARIO REGL MUNICIPALITY 4.6%	30-May-17	1,000,000	1,000,640	4.42%	B
YORK ONT REGL MUNICIPALITY 4%	30-Jun-21	1,000,000	999,291	4.02%	B
YORK ONTARIO REGL MUNICIPALITY 5%	29-Apr-19	1,000,000	999,291	5.03%	B
REGIONAL MUNI OF YORK ONTARIO 7.25%	19-Jun-17	1,000,000	1,012,338	4.42%	B
BANK OF MONTREAL 2.12%	16-Mar-22	2,000,000	2,010,896	2.01%	B
ROYAL BANK OF CANADA 1.583%	13-Sep-21	2,000,000	1,971,367	1.90%	B
BANK OF MONTREAL	3-Apr-20	7,500,000	7,500,000		B
CASH			19,340,714		
		Subtotal	507,751,294		
		Cash in Bank	76,500,178		
		PowerStream Note	78,236,285		
		Total Investments	662,487,757		
<sup>1</sup> Yield to maturity					
* M - Money Market					
B - Bond					

## Attachment 2

<b>SHORT TERM INVESTMENT PORTFOLIO</b>				
<b>As at December 31, 2016</b>				
	<b>Par Value</b>	<b>% of Total</b>		
<b>Sector / Securities</b>			<b>Portfolio Limit %</b>	<b>Individual Limit %</b>
<b>FEDERAL</b>				
Government of Canada	-	-	100	100
Federal Guarantees	-	-	100	50
<b>PROVINCIAL</b>	-	-	100	50
	-	-	80	35
	-	-	20	5
<b>Provincial Total</b>	-	-	<b>100</b>	
<b>BANKS</b>				
Schedule I Banks			100	50
Toronto Dominion Bank	80,000,000	17.20%		
CIBC	35,000,000	7.53%		
Royal Bank of Canada	75,000,000	16.13%		
Bank of Nova Scotia	60,000,000	12.90%		
National Bank	125,000,000	26.88%		
BMO	90,000,000	19.35%		
Schedule II Banks	-		15	5
			10	3
Schedule III Banks	-		5	2
<b>Banks Total</b>	<b>465,000,000</b>	100.00%	<b>100</b>	
<b>OTHER</b>				
Asset Backed Securities	-	-	10	3
Credit Unions and Loan/Trust Corporations	-	-	30	5
<b>Other Total</b>	-	-	<b>30</b>	
<b>TOTAL - Short Term</b>	<b>465,000,000</b>			

<b>LONG TERM INVESTMENT PORTFOLIO</b>					
<b>As at December 31, 2016</b>					
	<b>Amount</b>	<b>% of Total</b>			
<b>Sector / Securities</b>			<b>Portfolio Limit %</b>	<b>Individual Limit %</b>	<b>Maximum Term</b>
<b>FEDERAL</b>					
Government of Canada	-		100	100	20 years
Federal Guarantees	-		50	25	20 years
<b>Federal Total</b>			<b>100</b>		
<b>PROVINCIAL<sup>1</sup></b>					
PROVINCIALS (CANADIAN)	6,220,333	6.12%			
			70	35	20 years
			35	15	15 years
			10	5	5 years
<b>Provincial Total</b>	<b>6,220,333</b>	<b>6.12%</b>	<b>70</b>		
<b>MUNICIPALS</b>					
			35	10	15 years
MUNICIPALS (CANADIAN)	4,011,560	3.95%			
			25	5	10 years
MUNICIPALS (CANADIAN) Aa	1,696,423	1.67%			
			10	2	5 years
<b>Municipals Total</b>	<b>5,707,983</b>	<b>5.62%</b>	<b>35</b>		
<b>BANKS</b>					
Schedule I Banks	11,482,264	11.30%	50	20	10 years
Schedule II Banks	-		15	5	5 years
Schedule III Banks	-		10	3	5 years
<b>Banks Total</b>	<b>11,482,264</b>	<b>11.30%</b>	<b>50</b>		
<b>PowerStream Note</b>	78,236,285		n/a		
<b>TOTAL - Long Term</b>	<b>101,646,865</b>				