

Managers' Reports



Request for Recommendation

Investment Policy

Presented To:	Priorities Committee
Presented:	Wednesday, Jul 08, 2009
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Recommendation

THAT the modifications to the City's Investment Policy as outlined in the report from the Chief Financial Officer dated June 16, 2009 be approved; and

THAT the necessary by-law be prepared.

Executive Summary

This report will identify measures that can be taken regarding the modification of investment policy that would boost the City's return on investments. With the current global economic down turn resulting in historically low interest rates, some of the City's current short term investments are earning less than 0.5% interest. This will result in investment income not meeting 2009 budgeted values. Therefore, a strategy to move more investments long term may mitigate the investment income shortfall.

Background

Introduction

The City of Greater Sudbury has excess cash resources available for investment as a result of funds held in reserves, reserve funds, trust funds, the capital fund and as a result of excess cash receipts over cash disbursements at any given time in the year. The investment of excess cash is regulated by Provincial statute and part of this statute requires the municipality maintain an investment policy.

In 2008, the City of Greater Sudbury had funds available for investment ranging from \$179 million to \$286 million. Investments in 2009 have reached as high as \$270 million. In 2008 the average rate of return on these investments was 3.78%. In accordance with the current investment policy

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and By-law 2006-267F, the portfolio may have long term investments to a maximum of \$50 million and the remaining investments are short term (up to one year). This report is recommending an increase in the maximum amount that can be invested in long term investments at any one time to \$100 million. See attached for a copy of the Investment Policy, including proposed changes.

Excess funds are invested to adhere to statutory requirements, preserve capital, maintain liquidity to meet financial requirements while maximizing the rate of return.

Eligible Investments

The City must comply with the Municipal Act. under Ontario Regulation 438/97, and O.Reg. 655/05.

The City can invest only as prescribed by the regulations.

Examples of eligible investments that apply to the City of Greater Sudbury are detailed in the attached policy.

The City does not have a bond rating, so cannot directly invest in bonds, debentures, promissory notes and securities of a corporation. Should the City acquire such an investment as a gift in a will, it must sell the investment within 90 days of taking ownership.

However, the City of Greater Sudbury may invest indirectly, through the ONE Fund, in the shares of a corporation and corporate debt that has a term longer than five years.

Recommended change in investment strategy

Currently the City's investment portfolio is approximately \$50 million long term with the remainder short term. With the current world economic down turn, world central banks have been aggressive in their attempts to spur economic recovery and growth. As a result, central banks have reduced the overnight lending rates to historical low levels; United States Federal Reserve Board rate 0 - .25% and the Bank of Canada at .25%. The governor of the Bank of Canada has indicated that this rate will not increase until the middle of 2010. The Canadian Chartered Banks have set the prime lending rate at 2.25%. On typical Bankers' Acceptance Certificates (BA) the current rate of return ranges from .35% to .50%. Our Investment Officer has been diligently scouring the market in order to maximize returns under the current investment policy. Staff have been fortunate to secure some 1 year Guaranteed Investment Certificates (GIC) at 1.35% which in this market place is a good return. The current yield curve is steep and the best returns are between 7 & 11 years on the yield curve. The City currently has \$50 million in long term investments, which is the maximum allowed under the current investment policy. A cash flow analysis of the City's funds has identified that the long term investment limit can be raised to \$100 million while not affecting our ability to meet the City's financial obligations.

Financial Services staff have been meeting with other financial agents over the last month to determine potential strategies that can be used to boost our rate of return on investment. In all instances, the feedback received pointed to the steep yield curve currently in place and to take advantages of the increased returns of the long term investments.

Under the current policy, the City will be well under budget for investment income in 2009 and an estimated reduction of over \$1 million for the 2010 operating budget. With the increased levels of returns in the long term investments, the 2010 budget shortfall will be lessened or eliminated. Therefore, the recommendation to modify the City's investment policy to increase the long term investment limit to \$100 million is recommended by staff .

Frequently Asked Questions

The question is often raised regarding the difference between reserve, trust, current and capital funds and how they interact. The investment treatment of these funds is elaborated in the Investment Policy Statement. Generally, the current fund handles the day-to-day operating expenses and revenues, while the capital fund transacts major project expenditures and asset acquisitions, and their attendant revenues. This would include amounts contributed from the current budget, reserves and reserve funds. Reserves and reserve funds hold monies that have been specifically set aside for special purposes. Trust funds are restricted funds for specific purposes. Transfers between funds are authorized by Council through the adoption of the annual budget, by special resolution or under the authority of the by-law establishing the funds.

Another frequent question is related to the rationale for investing long term versus short term, and what portion of investment portfolio was long term. To the extent possible, the City matches its investments with anticipated cash flow requirements. Reserve funds and other funds with longer-term investment horizons may be invested for longer periods. The aim is to coincide the maturity of such investments as nearly as practicable with the expected use of the funds. It is recommended that the City set a new limit of up to \$100 million for longer terms (more than one year) in order to capitalize on long term interest rates. Based on the historical monthly levels of investments, it is recommended that a long term investment limit of \$100 million is appropriate. This limit is monitored on an on-going basis to ensure that the portfolio has a diversification of investments that will maximize rate of return.

In general, the current yield curve, the economic outlook (both short and long term), and the cash requirements of the City all play a part in the decision process regarding investments and their term. Increased limits are subject to Council approval.

A third often-asked question is what the impact would be if the capital fund was credited with the interest it earned rather than attributing it to the current fund, and what impact that would have had on our tax levy. In 2008 the capital fund earned \$2,054,563 million. Had that revenue not been credited to the current fund, this would have equated to about a 1.2% levy increase.

Summary

In order to maximize the City's investment income, it is recommended that the City's investment policy be modified to provide for \$100 million in long term investments, and that the necessary by-law be prepared.

INVESTMENT POLICY STATEMENT

POLICY STATEMENT

The purpose of this investment policy is to provide an investment framework that allows the City of Greater Sudbury to invest excess cash resources within statutory limitations, to protect and preserve capital, to maintain solvency and liquidity to meet on-going financial requirements and to earn the highest rate of return possible. Cash available for investments is generated from funds held in reserves, reserve funds, trust funds, the capital fund plus excess of cash receipts over cash disbursements at any given time during the year.

INVESTMENT GOALS

The major objectives of this investment policy, in priority order, are:

- i. Adhere to statutory requirements;
- ii. Preserve capital;
- iii. Maintain liquidity to meet financial requirements; and
- iv. Maximize the rate of return.

LEGAL AUTHORITY

All investment activities will be governed by section 418 of the Municipal Act, 2001 as amended. Investments, unless limited further by Council, will be those as prescribed under Ontario Regulation 438/97 as amended by Ontario Regulation 655/05 or as authorized by subsequent provincial regulations.

PRESERVATION OF CAPITAL

Ensuring the safety of principal is of paramount importance. The risk of loss is minimized by investing City funds only in those instruments that meet a minimum credit rating. Analysis of the credit worthiness of issuers is undertaken by several reputable credit rating agencies. These agencies assess the relative strength of issuers and their capacity to pay interest and repay principal. Minimum credit ratings for all investments are set out in regulation and are different for different investments. For the investment purposes of the City of Greater Sudbury, acquired securities must meet the required credit rating prescribed by regulation.

In accordance with Ontario Regulation 438/97 should an investment held by the City be re-evaluated by one of these rating firms and fall below the standard required, the City must sell the investment within 90 days after the day the investment falls below the standard.

MAINTAINING LIQUIDITY TO MEET FINANCIAL COMMITMENTS

The City of Greater Sudbury's investment portfolio shall be sufficiently liquid to meet operating and cash flow requirements that can be reasonably anticipated. This will be done by structuring the portfolio so that securities mature concurrent with anticipated cash demands.

The municipality's cash outflows can only be estimated, necessitating certain levels of liquidity to be built into the investment portfolio to meet variances from forecast and other unanticipated demands.

Liquidity can be measured by the ease with which one can convert the securities to cash. To ensure liquidity, the portfolio should consist largely of securities with active secondary or resale markets. The most liquid instruments available are federal and provincial treasury bills, of which the federal bills are more liquid. Also highly liquid are bank term deposits and guaranteed investment certificates. For the City's investment purposes, the purchase of federal and provincial treasury bills and bank term deposits and guaranteed investment certificates shall provide the necessary liquidity.

RATE OF RETURN

The City of Greater Sudbury will maximize the rate of return earned on investment income without compromising the above three objectives. Although important, maximization of the rate of return ranks lower than ensuring the safety of the City's funds. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to assumed risk.

INVESTMENT TREATMENT OF THE CITY OF GREATER SUDBURY FUNDS

OPERATING FUND

During the early part of the year, the Operating Fund is in a borrowing position as major revenues do not materialize until well into the year, whereas expenditures tend to be more evenly timed. Before the City goes "outside" to borrow funds, it first borrows from the Capital and/or Reserve Funds. When borrowing from another fund, the City pays interest at the average monthly investment yield for the City's investment portfolio.

RESERVE FUNDS

Although most City funds are pooled for investment purposes, interest earned or accrued each month is credited to every reserve fund, based on its balance at the previous month-end. Interest paid is the average rate of return on all investments of the City of Greater Sudbury for the current month.

CAPITAL FUND

Interest earned by the Capital Fund shall be credited to this fund, based on its balance at the previous month-end at the average rate of return on all investments of the City of Greater Sudbury for the current month. However, in keeping with the City's capital policy, any interest revenue earned by the Capital Fund shall then be credited to the Operating Fund.

PRE-FUNDING CAPITAL PROJECTS

From time to time a capital project may require pre-funding with repayments to come from capital envelopes or other sources over time. So as to maintain the rate of return, both on investments and to the City's funds, interest will be charged on these pre-funded projects at one per cent above the average investment rate locked in at the time pre-funding is approved. This is in accordance with the City's Capital Policy, and in each instance, Council authorization would be required.

TRUST FUNDS

A number of trust funds are administered by the City. Each trust fund is kept entirely separate, and interest earned is credited directly to each fund.

SUDBURY AIRPORT COMMUNITY DEVELOPMENT CORPORATION

From time to time the Sudbury Airport Community Development Corporation requires funding, as authorized by by-law. Interest is charged monthly at one percent over the average investment rate.

PERIOD OF INVESTMENTS

The City shall maintain an annual cash flow forecast model and monitor it daily to determine cash needs and investment opportunities. Using this tool, investments can be made for periods of time that enable the City to meet its current financial needs and obligations. Within this time framework, every effort will be made to maximize the rate of return on the investments.

Much of the City's short-term cash requirements are predictable, which means a substantial portion of the investment portfolio can be in higher-yielding term investments, which can be timed to mature on or close to dates when funds are to be disbursed.

In general, the current yield curve, the economic outlook (both short and long term), and the cash requirements of the City all play a part in the decision process regarding investments and their term. When interest rates are rising or uncertain, investment terms will tend to be shorter to enable the City to roll its portfolio over into higher yield instruments. Conversely, when interest rates are declining, investments will be in longer term instruments, where possible. The economic outlook and interest rates will be monitored by staff, and decisions concerning investments will be made accordingly.

Up to **\$100 million** may be invested in long-term instruments (greater than one year). The remainder of the portfolio will be restricted to short-term investments (one-year and shorter).

ELIGIBLE INVESTMENTS AND INVESTMENT LIMITS

Instruments in which the City may invest must comply with current legislation and be made with consideration for the safety of invested principal and for liquidity to meet financial obligations, while endeavouring to maximize the rate of return. The City may invest in securities as specified by regulation. The main eligible investments available to the City are:

1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:
 - a. Canada or a province or territory of Canada;
 - b. an agency of Canada or a province or territory of Canada;
 - c. a country other than Canada
 - d. a municipality in Canada including our own
 - e. Ontario Strategic Infrastructure Financing Authority (OFIFA)
 - f. school boards or similar entities in Canada, conservation authorities as established under the *Conservation Authorities Act* and other local boards as defined in the *Municipal Affairs Act*.
 - g. post secondary education institution as defined in section 3 of the *Post Secondary Choice and Excellence Act, 2000*;
 - h. board of governors of a college of applied arts and technology of Ontario;
 - i. Board of a Public Hospital within the meaning of the *Public Hospitals Act*;
 - j. a non-profit housing corporation as defined in section 13 of *Housing Development Act*;
 - k. a local housing corporation as defined in Section 2 of *Social Housing Reform Act, 2000*
 - l. the Municipal Finance Authority of British Columbia
2. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if, secured by the assignment, to a trustee, as defined in the *Trustee Act*, of payments that Canada or a province or territory of Canada has agreed to make or is required to make under statute and the payments are sufficient to meet the amounts payable under the debt instrument.

- 3. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances, bonds, debentures, promissory notes or other evidence of indebtedness or similar instruments issued, guaranteed or endorsed by:
 - a. banks listed in Schedules I, II or III to the *Bank Act (Canada)*
 - b. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies
 - c. a loan corporation or trust corporation registered under the *Loan and Trust Corporation Act*
 - d. the Province of Ontario Savings Office
- 4. Bonds, debentures, promissory notes, other evidence of indebtedness issued or guaranteed by the International Bank for Reconstruction, by a supranational financial institution or a supranational governmental organization.
- 5. Debt of a corporation incorporated under the laws of Canada or a province of Canada with a term of less than 5 years.
- 6. Investments in the ONE Fund - public sector group of funds of the Local Authority Services Limited and the CHUMS Financing Corporation. The fund presently has money market and bond funds and will soon have corporate bond and corporate equity funds;

The regulation provides specific guidance for investments under Section 142 of the Electricity Act.

If the City of Greater Sudbury acquires bonds, debentures, promissory notes or securities of a corporation as a gift in a will, the City may take ownership of these investments but the investments except for corporate debt with a term of less than 5 years must be sold within 90 days.

The City of Greater Sudbury may directly invest in debt instruments and shares of corporations only in very rare and specific circumstances.

The City is not permitted to invest in any security that is expressed or payable in any currency other than Canadian dollars.

INVESTMENT LIMITS

The portfolio aims for both diversification and near risk-free investments to ensure safety of the capital. Emphasis is placed on securities offered by or unconditionally guaranteed by the Government of Canada, a province or territory of Canada, or the six major Canadian chartered banks (Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Bank of Nova Scotia, Toronto Dominion Bank, and National Bank of Canada).

The City may invest with each type of institution to the following limits:

	<u>Maximum % Limit</u>
Federal Government and its Crown Agencies	100%
Provincial Governments and their Crown Agencies	100%
Schedule "I" Banks	100%
Schedule "II" and "III" Banks	30%
Credit Unions and Caisses Populaires	20%
Municipal/School Board Debt Issues	20%
ONE Fund - public sector group of funds	20%
Other	20%

RESPONSIBILITY AND DELEGATION OF AUTHORITY

The Chief Financial Officer/Treasurer is responsible for the investment program of the City. Authority to manage and implement the investment program is delegated to the Manager of Financial Planning and Policy. No person shall engage in an investment transaction except as provided in this policy.

COMPETITIVE SELECTION

The purchase and sale of securities will be transacted through a competitive process with financial institutions approved by the Chief Financial Officer/Treasurer. The City will accept the offer that optimizes the investment objectives. A minimum of three quotations will be obtained for each transaction prior to placement of the investment. A record of these quotations shall be kept on file until the investment matures or is sold.

SIGNING AUTHORITY AND ELECTRONIC INVESTING

Investments are recommended by the municipal investment officer and approved by the Manager of Financial Planning and Policy or the Chief Financial Officer/Treasurer.

In general, with the exception of inter-municipal loans, and investments with the City's banker, investments will be made electronically, using the electronic banking feature, as provided by the City's banker. Multi-level security measures are in place to ensure the safety of the investment.

SAFEKEEPING AND CUSTODY

All investment securities will be held for safekeeping in the name of the City at the issuing institution, or in the case of inter-municipal loans, and investment in own debentures, in the City's vault. The issuing institution will issue a safekeeping receipt to the City for each investment transaction that lists all pertinent information. In addition, the issuing institution will provide monthly reports for each account, indicating all investment activity, book value of the holdings, market value as of month-end and income earned by the investments.

OVERNIGHT INVENTORY

Excess funds should be invested overnight if the current market rate exceeds the negotiated interest rate on the City's bank account.

REPORTS

Reports will be prepared by the municipal investment officer no less frequently than each month-end, and relayed to the Chief Financial Officer / Treasurer, for her review, outlining the investment position and performance of the City of Greater Sudbury.

The Chief Financial Officer / Treasurer will report to Council within 30 days if the City has made an investment that is inconsistent with its adopted investment policies and goals.

Annually, after each year-end, an investment report, in accordance with the regulation, will be forwarded to Council, before the end of March.