

**Subject: 2022 Investments, Endowment Fund, and other Treasury Activities**

**File Number: ACS2023-FCS-FIN-0005**

**Report to Finance and Corporate Services Committee on 6 June 2023**

**and Council 14 June 2023**

**Submitted on May 26, 2023 by Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance and Corporate Services Department**

**Contact Person: Mark Martin, Manager, Treasury, Corporate Finance, Finance and Corporate Services Department**

**613-580-2424, ext. 21307, Mark.Martin@ottawa.ca**

**Ward: Citywide**

**Objet : Placements de 2022, fonds de dotation et autres activités de la trésorerie**

**Dossier : ACS2022-FSD-FIN-0005**

**Rapport présenté au Comité des finances et des services organisationnels le 6 juin 2023**

**et au Conseil le 14 juin 2023**

**Soumis le 26 mai 2023 par Isabelle Jasmin, Trésorière municipale adjointe, Service des finances municipales, Direction générale des finances et des services organisationnels**

**Personne ressource : Mark Martin, Gestionnaire, Trésorerie, Service des finances municipales, Direction générale des finances et des services organisationnels**

**613-580-2424, poste 21307, Mark.Martin@ottawa.ca**

**Quartier : À l'échelle de la ville**

## **REPORT RECOMMENDATIONS**

**That the Finance and Corporate Services Committee recommend that Council:**

1. Receive the results of the City's investments for 2022, as required by Ontario Regulation 438/97 as amended, Section 8(1), and the City of Ottawa Investment Policy;
2. Approve the recommended annual Sinking Fund Levy reduction of \$500 thousand;
3. Receive, the 2022 Long-Term and Short-Term debt summary;
4. Approve the recommended amendments to the Short-Term borrowing By-law to increase the borrowing limit from \$500 million to a percentage basis that better aligns with the definitions for short-term borrowing limits as set out by Section 407 of the *Municipal Act, 2001*, S.O. 2001, c. 25;
5. Approve the Terms of Reference and Governance for the Investment Board in accordance with the Prudent Investor Regime; and
6. Approve the Ottawa Community Ice Partners proposal to temporarily waive until July 31, 2024, the requirement to fund from current year operating income a full year's debt servicing for the subsequent year and the requirement for an annual contribution to the Operating Reserve held with the City, due to the continuing impact of the pandemic on cashflows.

## **RECOMMANDATIONS DU RAPPORT**

Que le Comité des finances et des services organisationnels recommande au Conseil :

1. de prendre acte des résultats des placements de la Ville pour 2022, conformément au paragraphe 8(1) du *Règlement de l'Ontario 438/97*, dans sa dernière version, et à la Politique en matière de placements de la Ville d'Ottawa;
2. d'approuver la réduction recommandée de 500 000 \$ par année du prélèvement au titre du fonds d'amortissement;
3. de prendre acte, à titre informatif, du sommaire de la dette à court et à long terme pour 2022;

4. d'approuver les modifications recommandées au règlement régissant les emprunts à court terme afin d'augmenter la limite d'emprunt de 500 millions de dollars à une base de pourcentage qui s'aligne mieux sur les définitions des limites d'emprunt à court terme établies par la section 407 de la *Loi de 2001 sur les municipalités*, L.O. 2001, chap. 25;
5. d'approuver le mandat et la gouvernance du Conseil d'investissement conformément au régime de l'investisseur prudent;
6. d'approuver la proposition d'Ottawa Community Ice Partners consistant à supprimer provisoirement jusqu'au 31 juillet 2024 l'obligation de provisionner des fonds provenant des opérations de l'année en cours le service de la dette pour l'année suivante complète et de maintenir une contribution annuelle au fonds de réserve de fonctionnement de la Ville, en raison des répercussions continues de la pandémie sur les liquidités.

## **EXECUTIVE SUMMARY**

### **Investment Reporting**

In 2022, the City had investment fund returns of 1.65 per cent in the Reserve Fund (1.18 per cent in 2021), 3.1 per cent in the Sinking Fund (2.90 per cent in 2021), and negative 2.9 per cent in the Endowment Fund (6.5 per cent in 2021). The City held less than half of one per cent in City of Ottawa issued bonds and no new maturities or purchases of City of Ottawa bonds occurred in 2022. All investments were consistent with the investment policies and goals adopted by Council.

### **Sinking Fund Levy Reduction**

The City of Ottawa is authorized, under section 409(9) of the *Municipal Act, 2001*, to amend a debenture by-law to reduce the amount of the annual levy to be raised with respect to a sinking fund to the extent that the balance of the fund, including any estimated revenue, will be sufficient to repay the principal of the debt for which the fund was established on the date the principal comes due. Staff seek Council approval to reduce the annual sinking fund levies of by-laws 2019-272, 2019-418, and 2022-02 by \$500 thousand.

### **Debt Reporting**

The City can issue long-term debt to fund Council approved capital projects. The Chief Financial Officer/Treasurer, under the City of Ottawa *Delegation of Authority By-law*,

has authority to issue debt for capital projects up to a maximum amount approved by Council as part of the annual budget process and in accordance with the legislative criteria set out in the *Municipal Act, 2001*. The total net long-term debt outstanding as of December 31, 2022, was \$3.21 billion, which was an increase from \$3.04 billion the previous year. All debt was issued in accordance with the *Delegation of Authority By-law*.

### **Short-Term Debt**

The Chief Financial Officer/Treasurer, under the City of Ottawa *Short-Term Borrowing By-law 2019-268* and *Delegation of Authority By-law 2023-067*, is delegated authority to issue short-term debt for operations. The By-law currently sets a borrowing limit of \$500 million. To allow for growth and to better align the borrowing limit with the short-term borrowing limits as defined by the *Municipal Act*, staff recommend replacing the maximum dollar limit of \$500 million with the definition provided by the *Municipal Act* as stated below:

“The amount that may be borrowed at any one time, together with the total of any similar borrowings that have not been repaid, shall not exceed, during the period from January 1 to September 30, fifty per cent (50%) of the total, or during the period from October 1 to December 31, twenty-five per cent (25%) of the total of the estimated revenues of the City as set forth in the budget adopted for the year.”

### **Prudent Investor Standard**

On June 7, 2022, Council received the Prudent Investor Update report ([ACS2022-FSD-FIN-0005](#)). Council adopted the Prudent Investor Regime for funds not immediately required and directed the Chief Financial Officer/Treasurer to develop the Investment Governance Plan under an Outsource Chief Investment Officer (OCIO) model, establish the Ottawa Investment Board (the “OIB”), recruit Investment Board Members, and develop a Statement of Policies and Procedures. This report includes the next set of documents in this process, namely the Investment Plan Governance (Document 3) and the Ottawa Investment Board Terms of Reference (Document 4) for Council review and approval.

### **Ottawa Community Ice Partners (OCIP) waivers**

Due to the continuing impact of COVID on both the Bell Sensplex and Richcraft Sensplex, OCIP has requested a temporary waiver until July 31, 2024 from the

contractual requirement to pre-fund a full year's debt servicing requirements and annual contribution to the operating reserve held by the City. Staff recommend granting these temporary waivers until further review in 2024 in conjunction with the 2024 budget presented by OCIP to the City.

## **RÉSUMÉ**

### **Rapport sur les placements**

En 2022, le rendement des fonds de placement de la Ville a été de 1,65 % pour le fonds de réserve (1,18 pour cent en 2021), de 3,1 % pour le fonds d'amortissement (2,90 % en 2021) et de 2,9 % négatifs pour le fonds de dotation (6,5 % en 2021). La Ville détenait moins d'un demi pour cent d'obligations émises par la Ville d'Ottawa et aucun nouvel achat ou aucune nouvelle échéance d'obligations de la Ville d'Ottawa n'a eu lieu en 2022. Tous les placements ont été conformes aux politiques et aux objectifs d'investissement adoptés par le Conseil.

### **Réduction du prélèvement au titre du fonds d'amortissement**

La Ville d'Ottawa a la permission, aux termes de l'article 409(9) de la *Loi de 2001 sur les municipalités*, de modifier un règlement autorisant l'émission de débentures afin de réduire le montant du prélèvement annuel au titre d'un fonds d'amortissement de sorte que le solde du fonds, y compris les recettes estimées, soit ou sera suffisant pour rembourser le principal de la dette pour laquelle le fonds a été établi à la date d'échéance du principal. Le personnel demande au Conseil l'autorisation de réduire de 500 000 \$ par année les prélèvements au titre du fonds d'amortissement prévus par les règlements 2019-272, 2019-418 et 2022-02.

### **Rapport sur la dette**

La Ville peut émettre une dette à long terme pour financer les projets d'immobilisations approuvés par le Conseil. Le chef des finances/trésorier, en vertu du *Règlement sur la délégation de pouvoirs* de la Ville d'Ottawa, est autorisé à émettre des titres de créance à l'égard de projets d'immobilisations jusqu'à concurrence du montant approuvé par le Conseil dans le cadre du processus budgétaire annuel et conformément aux critères législatifs énoncés dans la *Loi de 2001 sur les municipalités*. Le total de la dette à long terme nette au 31 décembre 2022 était de 3,21 milliards de dollars, soit une augmentation par rapport aux 3,04 milliards de dollars de l'année précédente. Tous les

titres de créance ont été émis conformément au *Règlement sur la délégation de pouvoirs*.

### **Dettes à court terme**

Le chef des finances/trésorier, en vertu du *Règlement d'emprunt à court terme 2019-268* et du *Règlement sur la délégation des pouvoirs 2023-067* de la Ville d'Ottawa, peut émettre une dette à court terme pour des besoins opérationnels. Le Règlement de la Ville d'Ottawa fixe actuellement une limite d'emprunt de 500 millions de dollars. Pour permettre la croissance actuelle et de mieux aligner la limite d'emprunt avec les limites d'emprunt à court terme telles que définies par la *Loi sur les municipalités*, le personnel recommande de remplacer la limite maximale de 500 millions de dollars avec la définition fournie par la *Loi sur les municipalités*, comme indiqué ci-dessous :

« Le total combiné des emprunts contractés à un moment donné et des emprunts de nature similaire non remboursés ne dépassera pas un certain pourcentage des recettes estimatives de la Ville, telles qu'elles sont indiquées dans le budget adopté pour l'exercice, soit 50 % pour la période du 1<sup>er</sup> janvier au 30 septembre et 25 % pour la période du 1<sup>er</sup> octobre au 31 décembre. »

### **Règle de l'investisseur prudent**

Le 7 juin 2022, le Conseil a reçu le rapport de mise à jour sur l'investisseur prudent ([ACS2022-FSD-FIN-0005](#)). Le Conseil a adopté le régime de l'investisseur prudent pour les fonds qui ne sont pas immédiatement requis et a ordonné à la cheffe des finances/trésorière d'élaborer le plan de gouvernance des placements selon un modèle de chef des placements externe, de mettre sur pied le Conseil d'investissement d'Ottawa (le CIO), de recruter les membres de la Commission des placements, et de préparer une Déclaration des politiques et des procédures. Ce rapport inclut la prochaine série de documents faisant partie de ce processus, à savoir la gouvernance du plan d'investissement (Document 3) et le mandat du Conseil d'investissement d'Ottawa (Document 4), que le Conseil doit examiner et approuver.

### **Dérogations demandées par Ottawa Community Ice Partners (OCIP)**

Étant donné les répercussions continues de la COVID-19 sur le Sensplex de Bell et le Sensplex Richcraft, OCIP a demandé à bénéficier jusqu'au 31 juillet 2024 d'une dérogation provisoire à l'obligation contractuelle de préfinancer les exigences en matière de service de la dette pour une année complète et la contribution annuelle à la

réserve de fonctionnement détenue par la Ville. Le personnel a recommandé d'accorder ces dérogations provisoires jusqu'à ce qu'un autre examen soit effectué en 2024, en même temps que le budget de 2024 qu'OCIP présentera à la Ville.

## **BACKGROUND**

### **Investments Authority and Reporting**

The City of Ottawa is authorized, under section 418 of the *Municipal Act, 2001*, to invest funds not immediately required. On June 7, 2022, Council approved the adoption of the Prudent Investor regime, report ([ACS2022-FSD-FIN-0005](#)). The migration to this regime is progressing but until it is complete, staff must adhere to Ontario Regulation 438/97, as amended, that establishes a set of conservative criteria for eligible investments and portfolio strategies considered suitable for Ontario municipalities who are not adopting the Prudent Investor Standard pursuant to section 418.1. The current regulation also provides a wider range of eligible investments in Canadian corporate bonds and equities for the City's Endowment Fund. The regulation and the City's adopted Statement of Investment Policies and Procedures require reporting on the performance of the Endowment Fund, which is included in this report.

The City's Investment Policy, as approved by Council on November 12, 2015 ([ACS2015-CMR-FIN-0044](#)), sets sector, issuer, credit, term limits, and acts as the governing guideline for the management of the City's investment portfolios. The reporting requirements in the City's Investment Policy is reviewed annually and section 8(1) of Ontario Regulation 438/97 requires that a report be submitted to Council each year.

### **Sinking Fund Levy**

The City of Ottawa is authorized, under section 409(9) of the *Municipal Act, 2001*, to amend a debenture by-law to reduce the amount of the annual levy to be raised with respect to a sinking fund to the extent that the balance of the fund, including any estimated revenue, is or will be sufficient to repay the principal of the debt for which the fund was established on the date the principal comes due. Premiums received on past debenture issues have been deposited in the associated sinking funds combined with proper investments to lock in rates of return on these premiums that will result in a projected principal balance that will be in excess of the principal required to pay off the debenture at maturity and room to reduce the annual levy contributions.

### **Long-Term Debt Authority and Reporting**

The City of Ottawa is authorized, under section 401 of the *Municipal Act, 2001*, to issue long-term debt for capital projects. Ontario Regulation 403/02, as amended, establishes a set of conservative debt issuance measures and standards considered suitable for Ontario municipalities. The Chief Financial Officer/Treasurer, in accordance with the criteria set under the *Delegation of Authority By-law 2023-067* and provincial regulations, is authorized to proceed with one or more debt issues or bank loan arrangements at any time during the year throughout the term of Council. The City's Administration of Capital Financing and Debt policy ([ACS2007-CRS-FIN-0007](#)), approved by Council on April 11, 2007, establishes objectives, authorized financing instruments, reporting requirements and responsibilities, and governs the administration and management of capital financing and debt issuance activities. The reporting requirements of the policy state that Council receives information considered appropriate by the Chief Financial Officer/Treasurer in addition to any information requested by Council.

### **Short-Term Debt Authority and Reporting**

The City of Ottawa is authorized, under section 407 of the *Municipal Act, 2001*, to issue short-term debt to meet current expenditures of the City until taxes are collected. In accordance with the *Short-Term Borrowing By-law 2019-268*, the Mayor and the Chief Financial Officer/Treasurer of the City are authorized to borrow for the purpose of meeting the current expenditures of the City. This borrowing includes: amounts required for sinking and retirement funds, principal and interest due on any debt of the City, school purposes, other purposes the municipality is required by law to provide for and the amount of principal and interest payable by a person or municipality primarily liable for a debt, and if the City has guaranteed the debt and the debt is in default until the taxes are collected and other revenues are received.

The City's Administration of Capital Financing and Debt policy ([ACS2007-CRS-FIN-0007](#)), approved by Council on April 11, 2007, establishes objectives, authorized financing instruments, reporting requirements and responsibilities, and governs the administration and management of capital financing and debt issuance activities. The reporting requirements of the policy state that Council receives information considered appropriate by the Chief Financial Officer/Treasurer in addition to any information requested by Council.

To facilitate short-term borrowing needs, the City established a \$100 million line of credit facility and \$500 million Promissory Note facility (the "Facilities") with the Short-



Term Borrowing *By-Law 2019-268* limiting any combined borrowing from the Facilities to \$500 million at any one time.

Staff recommend removing the \$500 million limit as stated in the by-law so that the limit can grow commensurate with the city's revenue growth and cashflow requirements, and to better align with the prescribed legislation requirements pursuant to Section 407 of the *Municipal Act, 2001, S.O. 2001, c. 25*, as amended, as stated below:

“The amount that may be borrowed at any one time together with the total of any similar borrowings that have not been repaid, shall not exceed, during the period from January 1 to September 30, fifty per cent (50%) of the total, or during the period from October 1 to December 31, twenty-five per cent (25%) of the total of the estimated revenues of the City as set forth in the budget adopted for the year.”

Based on budgeted revenues for 2023, this limit would be estimated at \$1 billion in temporary cashflow borrowing at any one time. If approved by Council, staff would make the necessary changes to the existing policy.

### **Prudent Investor Standard**

On June 7, 2022, Council received the Prudent Investor Update report ([ACS2022-FSD-FIN-0005](#)). Council adopted the Prudent Investor Regime for funds not immediately required and directed the Chief Financial Officer/Treasurer to develop the Investment Governance Plan under an Outsource Chief Investment Officer (OCIO) model, establish the Ottawa Investment Board (the “OIB”), recruit Investment Board Members, and develop a Statement of Policies and Procedures.

The Governance Plan, attached as Document 3, is presented for Council approval. The Ottawa Investment Board Terms of Reference, attached as Document 4, is presented for Council approval.

### **Ottawa Community Ice Partners (OCIP) Waiver**

The City's P3 partner, Ottawa Community Ice Partners Incorporate (OCIP), is a local non-profit organization that includes the Ottawa Senators Hockey Club, the Ottawa Senators Alumni, and Morley Hoppner Group. OCIP owns the Bell Sensplex and Capital Sports Management, an affiliate of the Ottawa Senators, manages the facility on a day-to-day basis. In 2004, the City entered into a P3 agreement with OCIP to design, build,

finance, operate and maintain the Bell Sensplex ([ACS2003-CMR-OCM-0014](#)), and the Richcraft Sensplex in 2012 ([ACS2012-COS-PRC-0018](#)). The new facility was built through private-sector financing and the debt was guaranteed by the City under a Municipal Capital Facilities Agreement. The City of Ottawa set up an Operating Reserve funded through an \$850,000 contribution from OCIP and annual contributions of \$250,000 from the City, until the reserve reaches the value of a one-year debt servicing repayment. A Lifecycle Renewal Reserve (one per cent of construction value contributed annually) was also set up by OCIP to ensure timely capital maintenance of the facility. At the end of this 30-year agreement, the City will purchase the facility and the land for the sum of one dollar. OCIP is responsible for all programming and marketing of activities within the complex. As per the agreement the City guaranteed both OCIP loans; one from the Bank of Nova Scotia for the Bell Sensplex in the amount of \$25 million, and the other from the Royal Bank of Canada for the Richcraft Sensplex in the amount \$26 million.

## **DISCUSSION**

### **Financial Market Review 2022**

In 2022, the Canadian economy expanded by 2.3 per cent for the year as measured by Gross Domestic Product (GDP). Consumer Price Index (CPI) inflation increased by 6.3 per cent, year over year. The lifting of pandemic era restrictions across provinces and the opening of borders over the course of the year continued to expand economic activity across the country. The national unemployment rate was at 5 per cent in 2022, down from 6 per cent in 2021 with more jobs being created in the restaurant, tourism, and service sectors.

The Bank of Canada along with most central banks rapidly increased its overnight target rate during 2022. Rates increased from 0.25 per cent to 4.25 per cent and the bank began a quantitative tightening program in order to combat rising inflation in the economy. The overnight target rate is expected to remain at higher levels throughout most of 2023.

Canadian equity markets ended the year in negative territory falling by 8.7 per cent due to fears about rising inflation as well as geo-political concerns. The annual loss in the S&P/TSX Composite was driven by decreases in the Health Care sector (62.2 per cent), Technology sector (52.2 per cent) and the Financial sector (12.7 per cent). Meanwhile,

only the Energy sector was up (24.4 per cent) along with Consumer Staples (8.5 per cent).

### City of Ottawa Investment Returns

The City's investments are subject to the legislative guidelines prescribed by Ontario regulation. Due to increased net positive cash flows in 2022, the City was able to invest an additional \$241 million. This increase was re-invested in long-term and short-term fixed income investments. The City held less than half of one per cent in City of Ottawa issued bonds and there were no new maturities or purchases of City of Ottawa bonds in 2022.

Table 1 below shows the average portfolio balance during 2022 and the income earned for the year. Document 1 outlines the investment portfolio by asset class, term, and credit exposure.

**Table 1: Average Portfolio Balance and Income in 2022**

<b>Portfolio</b>	<b>Average Portfolio Value (\$ million)</b>	<b>Earned Income (\$ millions)</b>	<b>Investment Return<sup>1</sup> (%)</b>
Short-Term Investments	1,123.7	17.6	1.57
Long-Term Funds	1,616.3	27.7	1.71
<b>Total General Funds</b>	<b>2,740.0</b>	<b>45.3</b>	<b>1.65</b>
<b>Sinking Fund</b>	<b>225.8</b>	<b>7.0</b>	<b>3.10</b>

<sup>1</sup>Represents the return on the monthly average holdings in 2022 versus Note 4 in the draft Consolidated Financial Statements, which provides the weighted average yield on investments, held as of December 31, 2022.

### Endowment Fund Performance

The Endowment Fund (the Fund) was established from the proceeds received from Hydro Ottawa subsequent to refinancing in 2005. The province broadened the scope of eligible investments for the Fund to include Canadian equities and corporate bonds. Two external investment managers manage the investments for the Fund.

On June 14, 2006, Council adopted the Investment Policy and Procedures for the Fund, which set the target return at 6.5 per cent and established the Endowment Fund Investment Committee to oversee the operation of the Fund. The Fund year-end was set at September 30 to provide the Committee with enough time to declare a payout to the City for the following budget year. Each year, the Investment Committee reviews the returns for the Fund and calculates the amount to be distributed to the City. On October

10, 2012, Council approved the Long Range Financial Plan – Tax Supported Capital IV report ([ACS2012-CMR-FIN-0039](#)), which endorsed the following recommendation: “That the City of Ottawa Endowment Fund be maintained at \$200 million and any excess continue to be directed to fund the capital program”.

The market value of the Fund as of December 31, 2022 was \$191.3 million. Payouts were made to the City from the Fund in 2022 when the market value exceeded \$200 million. Payouts from the fund in 2022 added up to \$13 million, which is in line with the 6.5 per cent target. Although the fund experienced an annualized return of -2.9 per cent for the year, the fund exceeded \$200 million early in the year, and staff were able to draw the \$13 million before rates dropped for the remainder of the year.

Table 2 below shows the details of the payments from the Fund compared to expected returns over the past four years and since inception:

**Table 2: Payment Details and Expected Returns**

<b>Year</b>	<b>Expected Return</b>	<b>Actual Payments<sup>2</sup></b>
2008-2018	143,000,000	135,000,000
2019	13,000,000	13,000,000
2020	13,000,000	13,000,000
2021	13,000,000	21,000,000
2022	13,000,000	13,000,000
<b>Since Inception</b>	<b>195,000,000</b>	<b>195,000,000</b>

<sup>2</sup> As a result of low returns in 2018, the declared payout was limited to \$5M and the remaining \$8M was recovered in 2021.

### **Approve Sinking Fund Levy Reduction**

The City of Ottawa is authorized, under section 409(9) of the *Municipal Act, 2001*, to amend a debenture by-law to reduce the amount of the annual levy to be raised with respect to a sinking fund to the extent that the balance of the fund, including any estimated revenue, is or will be sufficient to repay the principal of the debt for which the fund was established on the date the principal comes due.

The City has issued four bonds at a premium price meaning the City received proceeds in excess of the maturity amount. For example, with debenture by-law 2019-272, the City issued a \$200 million debenture and received \$219,276,000 in proceeds for a

premium paid by the investors of \$19,276,000. The premium is not new or additional money to the City. It represents a future payment obligation to investors to make up for the difference between the debenture coupon the City pays annually (3.25 per cent) and the prevailing yield on the debentures when issued (2.575 per cent). The premium is then invested by the issuer so that the principal received, plus accumulated interest from investing this principal, accumulates to offset the difference in coupon and yield. If invested at a higher rate than the yield on the debenture issued, the City generates a cost reduction. If invested at a lower rate, the City bears an additional cost. The premium received on these debentures over the past few years has been strategically invested short term, in anticipation of the forecasted rate increase. With the rising long term interest rates in 2023, Staff have been able to lock in the higher rate, locking in long term cost savings that will be used to reduce the annual sinking fund levies for the associated debenture by-laws.

As a result, Staff are recommending the following Levy reductions totalling \$500K annually:

<b>Levy</b>	<b>Current Levy</b>	<b>New Levy</b>	<b>Levy Reduction</b>
272	\$4,981,081.36	\$4,781,081.36	\$ 200,000.00
2019-418	\$ 578,950.40	\$ 378,950.40	\$ 200,000.00
2022-02'	\$ 1,869,554.21	\$ 1,769,554.21	\$ 100,000.00

### **Long-Term Debt**

The City issued \$286 million in new long-term debt in 2022. The proceeds from the debt issued were used to finance the following types of projects:

	<b>(\$M)</b>
Transit (including \$200M Green Bond to fund LRT)	220.0
Roads and Bridges	23.7
Sanitary and Storm Sewer	39.7
Environmental Services	2.6
	<b>286.0</b>

Total net long-term debt as of December 31, 2022 was \$3.21 billion, an increase from \$3.04 billion the previous year. In the same year, the City added \$1.64 billion in new tangible capital assets to its inventory, increasing the total net book value of the City's tangible capital assets to \$20.9 billion. The outstanding net long-term debt of \$3.21

billion represents 15.4 per cent of the value of the City's tangible capital assets. From a taxpayer's perspective, that is equivalent to a \$77 thousand mortgage on a \$500 thousand home.

Debt levels are continuously monitored to ensure the ongoing financial stability and sustainability of the City, in accordance with the City's fiscal framework principles. Council established debt servicing targets where principal and interest for tax supported debt are not to exceed 7.5 per cent of the City's own source revenue, and principal and interest for water and sewer rate supported debt will be limited to no more than 15 per cent of rate revenues; for a combined target of 8.5 per cent of total own source revenues. The total debt interest and principal payments for tax and rate supported long-term debt in 2022 was \$162.3 million, which represents 5.16 per cent of the City's total own-source revenues, well below the 8.5 per cent target established by Council.

### **Short-Term Debt**

The Treasury Branch uses short-term borrowing strategies to manage cash flow volatility and meet debt servicing obligations while maintaining a prudent investment approach. Short-term borrowing strategies are critical to ensuring there are sufficient funds to cover operating and capital spending, as and when required.

During 2022, proceeds from Promissory Note issuance provided short-term liquidity and replaced the requirement to maintain costly short-term investment holdings. To keep a market presence, staff issue Promissory Notes on a weekly basis with maturities ranging from one to three months and offset the cost by investing the proceeds in short-term conservative investments. There was \$320 million of outstanding Promissory Notes at the end of the year, all of which matured and were paid back in January 2023.

The City's cash flow requirements and debt obligations continue to grow in line with the growth of infrastructure spending throughout the province and in line with other Canadian and North American municipalities. Treasury staff must continuously balance the short-term volatility of cash flows with long-term debt servicing obligations and investment return objectives. Council approved the Temporary Borrowing By-law 2019-268 authorizing short-term borrowing of up to \$500 million to better manage the volatility of these cashflow requirements. Short-term borrowing needs are addressed with two key financing vehicles: a line of credit facility and Promissory Note program. Promissory Notes were implemented to better manage short-term cash flow volatility, support long-

term investment strategies, and bridge long-term funding requirements during periods of high cash flow and interest rate volatility. As the City's budget increases each year so does the requirement for the short-term borrowing increase as is reflected in the wording of the Municipal Act definition for short-term borrowing limits for municipalities:

“The amount that may be borrowed at any one time, together with the total of any similar borrowings that have not been repaid, shall not exceed, during the period from January 1 to September 30, fifty per cent (50%) of the total, or during the period from October 1 to December 31, twenty-five per cent (25%) of the total of the estimated revenues of the City as set forth in the budget adopted for the year.”

Staff recommend Council approve the amendment of section 2 (LIMIT ON BORROWING) to short-term borrowing by-law 2019-268 by deleting the reference to a maximum of \$500,000,000 and replacing it with the terms and limit pursuant to Section 407 of the *Municipal Act, 2001, S.O. 2001, c. 25*, as amended.

The revised Short-Term Borrowing By-law 2023-xx to be approved by Council as part of this report is attached as document 2.

### **Prudent Investor Standard**

On June 7, 2022, Council received the Prudent Investor Update report ([ACS2022-FSD-FIN-0005](#)). Council adopted the Prudent Investor Regime for funds not immediately required and directed the Chief Financial Officer/Treasurer to develop the Investment Governance Plan under an Outsource Chief Investment Officer (OCIO) model, establish the Ottawa Investment Board (the “OIB”), recruit Investment Board Members, and to develop a Statement of Policies and Procedures.

The Governance Plan, attached as Document 3, is provided for Council's review and approval. The OIB terms of reference, attached as Document 4, is also provided for Council's review and approval. The Board member poster and application has been finalized and is ready for communication and distribution, upon Council's approval of the Governance Plan and Ottawa Investment Board Terms of Reference.

The immediate next steps to implement the Prudent Investor regime are as follows:

- (1) **Recruit the Ottawa Investment Board Members** – The Prudent Investor regulation states that, other than the Treasurer of a Municipality, an officer or employee of any municipality or a member of council of any municipality may not

be appointed to the Board. Staff will conduct an external search for qualified Investment Board members, in accordance with the City's appointment policy. Board members will be selected on the basis of their knowledge and experience to execute their duties with care, skill, diligence, and judgement including the duty to obtain the advice that a prudent investor would obtain under comparable circumstances. Treasury Staff have been working with the Clerk's Office to develop the Terms of Reference, Recruitment poster and Recruitment Application. With the approval of the Governance and Terms of Reference attached to this report (Document 3 and 4 respectively) staff will initiate the recruitment process.

- (2) **Develop the Statement of Investment Policies and Procedures (SIP&P) -** Regulation 438/97 18. (1) states "The Council of a municipality shall adopt and maintain an investment policy in relation to prudent investing under section 418.1 of the Act. O. Reg. 43/18, s. 10". In accordance with the Act, the policy shall include requirements with respect to the municipality's objectives for return on investment, risk tolerance and liquidity needs. Section 18 (3) further states that the investment policy may include other requirements with respect to investment matters that Council considers to be in the interests of the municipality. The investment policy includes the OCIO Model as an investment matter Council has approved to be in the best interests of the City.
- (3) **Recruit an OCIO Provider** -With the assistance of Treasury Staff and an external Consultant, the OIB will procure an OCIO provider, as an agent of the board, to exercise the care, skill, diligence, and judgment that a prudent investor would exercise in making investment decisions for the City within the confines of the investment policy that will be approved by Council. Staff also recommend including an environmental, social and governance (ESG) statement in the investment policy that is aligned with Council's objectives and meets the prudent investor standard as stated above. At least annually, Council shall review the investment policy and update it, as necessary.
- (4) **Develop an Investment Plan** – As highlighted in item 2 above, Regulation 438/97 18. (1) states "The Council of a municipality shall adopt and maintain an investment policy in relation to prudent investing under section 418.1 of the Act. O. Reg. 43/18, s. 10". The OIB shall ensure an investment plan is developed and submitted by the OCIO provider.
- (5) **Implement the Investment Plan.** With the Council approved Governance Plan



and SIP&P/Investment Policy in place and in accordance with the OIB Terms of Reference, the OIB will provide oversight and direction to the OCIO provider in its execution of the Investment Plan.

The Chief Financial Officer/Treasurer will coordinate the appointment of Board members to the Municipal Investment Board with the Clerk's office in accordance with the City's appointment policy and develop the SIP&P/Investment Policy for Council approval.

## **OCIP**

Prior to COVID-19, both Bell and Richcraft Sensplexes were doing well financially and have maintained the lifecycle and operating reserves above the minimum requirement and have also built up a surplus reserve. The purpose of these reserves is to manage cashflow, maintain capital assets and to hold as collateral for the outstanding loans in case of a payment default.

On July 15, 2020, Council authorized the CFO to implement, finalize and execute the terms of a loan that guarantees for additional lines of credit with the Bank of Nova Scotia and Royal Bank of Canada to help address OCIP's cash flow needs associated with impacts of the COVID-19 pandemic. The OCIP lines of credit for the Bell Sensplex were guaranteed to a maximum of two million and Richcraft Sensplex to a maximum of three million. The two lines of credit and City guarantees are in place at the present time.

On October 25, 2021, the CFO authorized OCIP to draw down \$3.1 million from the surplus reserve pursuant to the terms of the agreement and extended the term of the line of credit approved by Council.

As described earlier, as part of the Sensplex agreements, the City of Ottawa set up an Operating Reserve funded through an \$850,000 contribution from OCIP and annual contributions of \$250,000 from the City, until the reserve reaches the value of a one-year debt servicing repayment. In March 2023, the City's CFO approved a draw down on the Operating Reserve of \$990,130 representing OCIP's original funding contribution plus interest, pursuant to the terms of the agreement.

OCIP has made a formal request for further assistance from the City, to achieve positive operating cash flows at each Facility, in the form of a temporary waivers as follows:

- That the City temporarily waive the requirement to fund the next succeeding year

debt service from the current period Net Operating Income

- That the City temporarily waive the requirement to fund the Operating Reserve Fund from the current period Net Operating Income

This temporary waiver, if granted by the City, will apply to and be in effect with respect to each of OCIP's fiscal years ending July 31, 2021 to and including July 31, 2024 at which time the City will revisit the waiver request in conjunction with the 2024 budget presented by OCIP to the City. OCIP has committed to continue to drive operating income sufficient to support daily operations, pay current debt and maintain the facilities. They have met and will continue to meet all monthly debt service requirements and will continue to make all required contributions to the Lifecycle Fund to maintain the facilities in a state of good repair.

Acknowledging the unique nature of the COVID-19 worldwide pandemic and recognizing the significant unanticipated impacts to operations at both Sensplex Facilities due to shutdown and limitations as a result of the governmental and public health measures, and in order to assist OCIP to achieve positive operating cash flows at each of the Sensplex Facilities, staff recommend granting this temporary waiver until further review in 2024.

## **FINANCIAL IMPLICATIONS**

Investment strategies have the goal of maximizing the City's investment holding risk adjusted returns that are aligned with Council objectives and risk tolerances.

By adopting the Prudent Investor regime, it is anticipated that the City will increase its risk-adjusted investment returns, which means the City will be better compensated for taking the same level of risk. Estimated costs to set up the Prudent Investor regime of \$230,000 will be absorbed by the expected increase in investment revenue.

Long-Term Debt is implemented to fund capital projects and equitably spread project cost amongst the ultimate users over time.

Short-Term debt is implemented to manage the City's cash flows and investment strategies with the goal of reducing interest cost and maximizing investment revenue in line with council priorities and objective.

The City has an existing commitment guaranteeing the initial mortgage for the two Sensplex facilities totaling \$51 million. In 2020, Council approved a City guarantee for two lines of credit increasing the total by up to \$5 million or less. OCIP currently holds

sufficient amounts of cash on hand combined with projected operating income to fund in-year debt servicing requirements and all other operating requirements. In the event of default, the loan guarantee is backed by the value of the assets which revert to the City.

## **LEGAL IMPLICATIONS**

There are no legal impediments to approving the recommendations in this report. Pursuant to subsection 418.1 (2) of the *Municipal Act, 2001*, a municipality may enact a by-law, to have section 418.1 of the *Municipal Act, 2001* apply in order to adopt the Prudent Investor regime in respect of investments made by a municipality. As further described in this report, the investments made pursuant to the Prudent Investor Enabling By-law 2022-317 will be carried out through an Investment Board in accordance with the requirements of section 418.1 of the Act and Regulation 438/97.

## **COMMENTS BY THE WARD COUNCILLOR(S)**

This is a citywide report.

## **ACCESSIBILITY IMPACTS**

There are no accessibility implications associated with this report.

## **ENVIRONMENTAL IMPLICATIONS**

Adopting the Prudent Investor regime expands the opportunity to evaluate Environmental, Social and Governance strategies to investing the City investment funds.

## **RISK MANAGEMENT IMPLICATIONS**

There are financial risk implications to investing. The City's investment portfolio under Prudent Investor is expected to increase diversification in comparison to the current investment portfolios. Under Prudent Investor it is anticipated that the City will increase its risk-adjusted investment returns, which means the City will be better compensated for taking the same level of risk. By outsourcing to an OCIO through the Investment Board the City can benefit from the OCIO's sophisticated risk management capabilities. The Statement of Investment Policies and Procedures approved by Council will consider Council's risk tolerances and will identify eligible investment asset classes and various limitations. The Chief Financial Officer/Treasurer has the duty to report to Council any investment that is not consistent with the Investment Policy. Compliance

will also be monitored by the OCIO and the Investment Board through a third-party investment custodian.

### **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

### **TERM OF COUNCIL PRIORITIES**

This report supports the City's on-going commitment to financial sustainability and transparency.

### **SUPPORTING DOCUMENTATION**

Document 1 - City of Ottawa Holdings

Document 2 - A By-law of the City of Ottawa to adopt the Short-Term Borrowing

Document 3 - Prudent Investor Governance

Document 4 - City of Ottawa Investment Board Terms of Reference

### **DISPOSITION**

Legal Services in consultation with Finance and Corporate Services Department staff will finalize the required by-law as described in this report and place the by-law on the agenda of Council for enactment. The Chief Financial Officer will coordinate with the Clerk's office to complete the recruitment process for the Investment Board members. The Chief Financial Officer will negotiate and execute the OCIP waiver terms and conditions in consultation with Legal Services.