

**2. 2018 INVESTMENTS, ENDOWMENT FUND AND OTHER TREASURY
ACTIVITIES REPORT**

**RAPPORT SUR LE FONDS D'INVESTISSEMENT ET DE DOTATION ET
SUR LES AUTRES ACTIVITÉS DE LA TRÉSORERIE DE 2018**

COMMITTEE RECOMMENDATIONS

That Council:

- 1. Receive the results of the City's investments for 2018, as required by *Ontario Regulation 438/97* as amended, Section 8(1), and the City of Ottawa Investment Policy, as well as information regarding Prudent Investor and the Green Bond Program.**
- 2. Approve the increase of short-term borrowing limit from \$100 million to \$500 million for the purposes of short-term borrowing in the *Temporary Borrowing By-law 2018-398*.**
- 3. Approve the recommendation to change the temporary short-term borrowing by-law established for the term of Council to a permanent short-term borrowing by-law that can be repealed or amended and replaced in the future if needed.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil :

- 1. prenne connaissance des résultats des placements de la Ville pour 2017, conformément aux exigences de l'article 8(1) du *Règlement de l'Ontario 438/97*, dans sa version modifiée, et de la Politique en matière de placements de la Ville d'Ottawa, ainsi que l'information à propos de l'Investisseur Prudent et du programme d'obligations vertes;**
- 2. approuve l'augmentation de la limite d'emprunt à court terme de 100 millions de dollars à 500 millions de dollars pour des emprunts à court terme, dans le *Règlement d'emprunt à court terme 2018-398*.**

3. **approuve la recommandation qui vise à rendre permanent le règlement temporaire sur les emprunts à court terme, qui a été adopté pour le mandat du Conseil et que l'on pourra modifier, abroger ou remplacer à l'avenir.**

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance, Corporate Services Department dated 24 May 2019 (ACS2019-CSD-FIN-0017).

Rapport de la Trésorière municipale adjointe, Finances municipales, Direction générale des services organisationnels, daté le 24 mai 2019 (ACS2019-CSD-FIN-0017).

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
4 June 2019 / 4 juin 2019**

**and Council
et au Conseil
12 June 2019 / 12 juin 2019**

**Submitted on May 24, 2019
Soumis le 24 mai 2019**

**Submitted by
Soumis par:
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2019-CSD-FIN-0017

**SUBJECT: 2018 Investments, Endowment Fund and Other Treasury Activities
Report**

**OBJET: Rapport sur le fonds d'investissement et de dotation et sur les autres
activités de la trésorerie de 2018**

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council:

1. Receive the results of the City's investments for 2018, as required by *Ontario Regulation 438/97* as amended, Section 8(1), and the City of Ottawa Investment Policy, as well as information regarding Prudent Investor and the Green Bond Program.
2. Approve the increase of short-term borrowing limit from \$100 million to \$500 million for the purposes of short-term borrowing in the *Temporary Borrowing By-law 2018-398*.
3. Approve the recommendation to change the temporary short-term borrowing by-law established for the term of Council to a permanent short-term borrowing by-law that can be repealed or amended and replaced in the future if needed.

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil :

1. de prendre connaissance des résultats des placements de la Ville pour 2017, conformément aux exigences de l'article 8(1) du *Règlement de l'Ontario 438/97*, dans sa version modifiée, et de la Politique en matière de placements de la Ville d'Ottawa, ainsi que l'information à propos de l'Investisseur Prudent et du programme d'obligations vertes;
2. d'approuver l'augmentation de la limite d'emprunt à court terme de 100 millions de dollars à 500 millions de dollars pour des emprunts à court terme, dans le *Règlement d'emprunt à court terme 2018-398*.
3. d'approuver la recommandation qui vise à rendre permanent le règlement temporaire sur les emprunts à court terme, qui a été adopté pour le mandat du Conseil et que l'on pourra modifier, abroger ou remplacer à l'avenir.

BACKGROUND

Investment Authority

The City of Ottawa is authorized, under Section 418 of the *Municipal Act, 2001*, to invest funds not immediately required. Ontario Regulation 438/97, as amended, establishes a set of conservative criteria for eligible investments and portfolio strategies considered suitable for Ontario municipalities.

Reporting Requirements

The City's Investment Policy, as approved by Council on 12 November 2015 ([ACS2015-CMR-FIN-0044](#)), sets sector, issuer, credit and 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 and Section 8(1) of O. Reg. 438/97 require that a report be submitted to Council each year.

Regulation 438/97 was amended on 12 December 2005, by Regulation 655/05. This regulation 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.

Short Term Borrowing

Section 407 of the *Municipal Act, 2001*, permits a municipality to authorize short-term borrowings for current purposes as may occur from time to time. Council passed temporary borrowing By-law 2018-398 authorizing short-term borrowing of up to \$100 million for the term of Council 2019-2022.

DISCUSSION

Financial Market Review 2018

In 2018, economic performance in Canada was tepid with the economy growing by 1.8 per cent for the year as measured by Gross Domestic Product (GDP). Consumer Price Index (CPI) inflation increased to 2.0 per cent, year over year. The increase aligns with the Bank of Canada target rate expectations. The national unemployment rate fell to a historic low of 5.63 per cent in 2018 and labour shortages in certain industries were becoming more prevalent.

The Bank of Canada increased its overnight target rate three times in 2018, from 1.00 per cent to 1.75 per cent. The expectation that additional rate hikes were to follow has faded as market volatility surged in response to declining commodity prices, continuing trade disputes, and signs of slowing growth.

The Canadian equity markets had a negative year dropping 8.9 per cent. Concerns about Canadian competitiveness, trade uncertainty, falling energy prices, and property-related debt weighed on domestic stocks. The annual loss in the S&P/TSX Composite was driven by drops in the Energy sector (-18 per cent), the Health Care sector (-16 per cent), and Consumer Discretionary (-14 per cent). The Information Technology sector was one of the only good news stories in 2018 for the TSX, finishing the year up 13 per cent. Leading the sector in 2018, and a local story, Shopify was amongst the best performing equities with an annualized return of 48.6 per cent in 2018.

City of Ottawa Investment Returns

The City's investments are subject to the legislative guidelines prescribed by Ontario Provincial Regulation.

2018 was a net cash flow positive year for the City resulting in a year-over-year investment portfolio increase of \$136 million. The unanticipated increase can be attributed to light rail capital expenditures being moved to 2019 as a result of LRT Stage 1 production delays. The increase to the investment portfolio was re-invested in short-term fixed income investments as additional liquidity was required to ensure that funds would be available when the light rail payments materialize.

Table 1 shows the average portfolio balance during 2018 and the income earned for the year. Document 1, attached, outlines the investment portfolio by asset class, term and credit exposure.

Table 1: Average Portfolio Balance and Income in 2018

Portfolio	Average Portfolio Value (\$ million)	Earned Income (\$ millions)	Investment Return¹ (%)
Short-Term Investments	1,038.3	20.1	1.94
Long-Term Funds	698.0	13.3	1.91
Total General Funds	1,736.3	33.4	1.92
Sinking Funds	129.0	4.4	3.41
Total of All Funds	1,865.3	37.8	2.03

¹ Represents the return on the monthly average holdings for the year 2018 versus Note 4 in the draft Consolidated Financial Statements, which provides the weighted average yield on investments, held as at December 31, 2018.

Endowment Fund Performance

The Endowment Fund (Fund) was established from the proceeds received from Hydro Ottawa when it completed its 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.

The market value of the Fund as at December 31, 2018 was \$186.1 million (which includes accrued interest). The Fund made one payout to the City in 2018 on July 13 for \$5 million.

Table 2 shows the details of the payments from the Fund compared to expected returns over the past two years and since inception.

Table 2: Payment Details and Expected Returns

Year	Expected Return	Actual Payments ²
2008-2016	104,000,000	104,000,000
2017	13,000,000	13,000,000
2018	13,000,000	5,000,000
Since Inception	130,000,000	122,000,000

² As a result of low returns in 2018, the declared payout was limited to \$5M.

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 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 (ACS2012-CMR-FIN-0039), Council 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”.

Prudent Investor Update

In May 2017, Bill 68 *Modernizing Ontario’s Municipal Legislation Act* received Royal Assent in the legislature. The Bill made several changes to the *Municipal Act, 2001* including granting of the Prudent Investor Standard to municipalities who choose to adopt the new standard and prescribed Regulations (O Reg. 438/97). The inclusion of

the Prudent Investor Standard allows municipalities greater investment authority but must include prescribed governance criteria including the establishment of an external Municipal Board.

Treasury staff is working closely with several Ontario municipalities to determine the best course of action given the changes to the *Municipal Act, 2001*. This group effort involves working closely with the One Investment Fund (MFOA), the Investment Management Corporation of Ontario, and leading investment consulting experts to determine the appropriate approach to the new changes. A recommendation on Prudent Investor and the governance required to prudently execute an investment plan is expected to be delivered to Council in the fall of 2019.

Green Bonds

The City has an obligation to report annually on the Green Bond Program to our investors. On November 10, 2017, the City of Ottawa issued its first Green Debenture (Debenture By-law 2017-355) for \$102,000,000. The proceeds were used to help finance Ottawa's Light Rail Transit (LRT) Stage 2 project.

In accordance with the use of funds indicated in the By-law, the proceeds of the Green Debenture issued were applied directly to the LRT Stage 2 project.

As of October 31, 2018, 100 per cent of the total principal amount of \$102 million has been spent on the LRT Stage 2 project.

The City of Ottawa has undertaken an internal compliance verification to confirm that the funds received from the Green Debenture issued November 2017 have been spent in accordance with the requirements stipulated in By-law No. 2017-355 and the City of Ottawa Green Debenture Framework. A review of all funding for the Ottawa LRT project for fiscal year 2018 confirmed that the Green Debenture proceeds were applied to the LRT Stage 2 project as required.

Promissory Note

Section 407 of the *Municipal Act, 2001*, permits a municipality to authorize short-term borrowings for current purposes as may occur from time to time. Council passed Temporary Borrowing By-law 2018-398 authorizing short-term borrowing of up to \$100 million for the term of Council 2019-2022.

The City is currently limited in its ability to borrow in the short term to manage ongoing cash flows. Council approves a “temporary” borrowing by-law each term of Council to a maximum of \$100 million. However, cash flow requirements may overlap two terms of Council, requiring staff to settle a short term note early at an additional cost or delaying short term borrowing towards the end of a term to wait for approval of the by-law in the next term. Having a “permanent” short term borrowing by-law in place would solve this issue.

A second concern with the current short-term borrowing by-law is the limit of \$100 million. With the size and timing of payments for public-private partnerships and other capital projects, the timing for reimbursement of eligible costs from other levels of government, as well as that the City collects over 80 per cent of property tax revenue in March and June, managing the cash flow and maximizing the terms becomes challenging. An increase in the short-term borrowing limit would significantly improve the City’s ability to manage cash flows each month, without issuing additional long-term debt or drawing down on investments.

Staff recommends that Council replace the temporary short-term borrowing by-law with a permanent short-term borrowing by-law and increase the upset limit to \$500 million to support current and projected future cash flow requirements. The requested authority is within the limits set out in Section 407 of the *Municipal Act, 2001* and Council would continue to have the authority to amend, or repeal and replace such by-law as appropriate.

The City’s treasury operations implement 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. The City recently implemented its Promissory Notes (PN) program as a key short-term borrowing mechanism. Other municipalities with PN programs similar in size to that of the City’s include: Montreal (\$600 million), Calgary (\$200 million), Vancouver (\$550 million), British Columbia Municipal Finance Authority (\$700 million). Promissory Notes provide accessible short-term liquidity and can replace the requirement to maintain costly short-term investment holdings.

Staff will report annually any financial implications associated with issuance of the PNs.

RURAL IMPLICATIONS

There are no rural implications as a result of this report.

CONSULTATION

The public consultation process is not applicable.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a city-wide report and Ward Councillor comments are not applicable.

ADVISORY COMMITTEE(S) COMMENTS

Not applicable.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications associated with the recommendations of this report.

FINANCIAL IMPLICATIONS

Temporary borrowing is implemented to manage the City cash flows and investment strategies with the goal of reducing interest costs and maximizing investment revenue in line with Council priorities and objectives.

ACCESSIBILITY IMPACTS

There are no accessibility implications as a result of the recommendations.

TERM OF COUNCIL PRIORITIES

The levy reduction aligns with Council's priority of financial sustainability.

SUPPORTING DOCUMENTATION

Document 1: City of Ottawa Holdings (*Held on file with the City Clerk*)

DISPOSITION

Further to Council approval, the Corporate Services Department will carry out the recommendations as presented in this report. City Clerk and Solicitor shall place the required By-Law on the agenda of Council.