

**1. 2019 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 2019**

COMMITTEE RECOMMENDATIONS

That Council:

- 1. Receive the results of the City's investments for 2019, as required by *Ontario Regulation 438/97 as amended, Section 8(1)*, and the City of Ottawa Investment Policy;**
- 2. Receive information regarding Prudent Investor;**
- 3. Receive the debt summary; and**
- 4. Receive information regarding the Green Bond program.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil :

- 1. prenne connaissance des résultats des placements de la Ville pour 2019, 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;**
- 2. prenne connaissance des renseignements relatifs à la règle de l'Investisseur prudent;**
- 3. prenne connaissance du sommaire de dette; et**
- 4. prenne connaissance des renseignements relatifs au Programme d'obligations vertes.**

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance, Finance Services Department dated 21 August 2020 (ACS2020-FSD-FIN-0017).

Rapport de la trésorière municipale adjointe, Services des finances municipales, Direction générale des services des finances daté le 21 août 2020 (ACS2020-FSD-FIN-0017).

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
1 September 2020 / 1er septembre 2020**

**and Council
et au Conseil
9 September 2020/9 septembre 2020**

**Submitted on August 21, 2020
Soumis le 21 août 2020**

**Submitted by
Soumis par:**

**Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance Services
Department / Trésorière municipale adjointe, Finances municipales, Direction
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2020-FSD-FIN-0017

**SUBJECT: 2019 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 2019**

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council:

1. Receive the results of the City's investments for 2019, as required by *Ontario Regulation 438/97 as amended, Section 8(1)*, and the City of Ottawa Investment Policy;
2. Receive information regarding Prudent Investor;
3. Receive the debt summary; and
4. Receive information regarding the Green Bond program.

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 2019, 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;
2. de prendre connaissance des renseignements relatifs à la règle de l'Investisseur prudent;
3. de prendre connaissance du sommaire de dette; et
4. de prendre connaissance des renseignements relatifs au Programme d'obligations vertes.

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.

Debt Authority

The City of Ottawa is authorized, *under section 401 of the Municipal Act, 2001*, to issue 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 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. The Chief Financial Officer, in accordance with the set criteria of delegated Authority By-law 2019-280 and provincial regulations, is authorized to proceed with one or more debt issues, Promissory note issue, line of credit and or bank loan arrangements at any time during a calendar year during the term of Council.

Reporting Requirements

Investments Reporting

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 also included in this report.

Debt Reporting

The City's Administration of Capital Financing and Debt policy, approved by Council on April 2007, as amended, 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 that the City Treasurer considers appropriate in addition to any information requested by Council.

DISCUSSION

Financial Market Review 2019

In 2019, economic performance in Canada was consistent with 2018 resulting in the economy growing by 1.7 per cent for the year as measured by Gross Domestic Product (GDP). Consumer Price Index (CPI) inflation increased to 1.9 per cent, year over year. The increase was mainly due to higher prices for food and transportation and aligns with the Bank of Canada target rate expectations. The national unemployment rate held steady at an historic low of 5.7 per cent in 2019 and labour shortages in certain industries remained prevalent.

The Bank of Canada had increased its overnight target rate three times in 2018, from 1.00 per cent to 1.75 per cent. The expectation for additional rate hikes to follow faded in 2019 as market volatility surged in response to declining commodity prices, continuing trade disputes, and signs of slowing growth. Therefore, the overnight target rate remained at 1.75 per cent for all of 2019.

The Canadian equity markets had a positive year climbing to 18.9 per cent. Concerns about Canadian competitiveness and trade uncertainty fell away with the signing of the USMCA trade agreement and its ratification as well as a booming U.S. economy. However, property-related debt continued to be a concern. The annual gain in the S&P/TSX Composite was driven by increases in the Energy sector (14.3 per cent), the Financial sector (16.6 per cent), and Consumer Discretionary (13.9 per cent) meanwhile the Health Care sector was down (-16.3 per cent). The Information Technology sector continued to be a good news story in 2019 for the TSX, finishing the year up 65.4 per cent. Leading the sector again in 2019, a local success story, Shopify was amongst the best performing equities with a return of 188.9 per cent in 2019.

City of Ottawa Investment Returns

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

2019 was a net cash flow positive year for the City resulting in a year over year investment portfolio increase of \$202 million. The increase can be attributed to the delay in debt issuance during 2018 resulting in a catch up of debt issuance for 2019 as

well as the issuance of promissory notes during the year. The increase to the investment portfolio was re-invested in short-term fixed income investments.

Table 1 shows the average portfolio balance during 2019 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 2019

Portfolio	Average Portfolio Value (\$ million)	Earned Income (\$ million)	Investment Return¹ (%)
Short-Term Investments	1,014.8	23.3	2.30
Long-Term Funds	723.94	16.0	2.21
Total General Funds	1,738.7	39.3	2.26
Sinking Fund	107.4	4.1	3.86

¹ Represents the return on the monthly average holdings for the year 2019 versus Note 4 in the draft Consolidated Financial Statements, which provides the weighted average yield on investments, held as at December 31, 2019.

Endowment Fund Performance

The Endowment Fund (Fund) was established from the proceeds received from Hydro Ottawa when it completed 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, 2019 was \$198.9 million. The Fund made a payout to the City in 2019 in the amount of \$13 million which is in line with the 6.5 per cent target.

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 Payments²
2008-2017	130,000,000	130,000,000
2018	13,000,000	5,000,000

Year	Expected Return	Actual Payments ²
2019	13,000,000	13,000,000
Since Inception	156,000,000	148,000,000

² As a result of low returns in 2018, the declare 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 (*Ontario Regulation 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 are working closely with several Ontario Municipalities to determine the best course of action given these Municipal Act changes. 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. Proposed regulatory changes developed by this group have been provided to the Ministry of Municipal Affairs to address impediments currently faced by many municipalities to implementing the current Prudent Investor Standard regulations and to better align these regulations with the City's investment needs. The Province has committed to re-establish the Debt and Investment Committee to address these and other regulatory changes proposed by other municipalities.

Long-Term Debt

The City issued \$470 million of new debt in 2019. The proceeds from these debt issues were used to help fund the following types of projects.

Table 3: Projects Funded

Project	(\$ million)
Roads and Bridges	204.7
Transit (including \$200M Green Bond to fund LRT)	207.0
Sanitary and Storm Sewer	25.1
Water	6.8
Protections Services - Fire	5.4
Protections Services - Police	14.1
Recreation Facilities	6.9
Total	470

Total net long term debt at December 31, 2019, including \$300 million P3 RTG obligation for Stage 1 LRT, was \$2.56 billion, an increase from \$1.91 billion in 2018. At the same time, the City added \$1.4 billion in new assets to its inventory, increasing the total value of the City's assets to \$22.9 billion. The outstanding net long term debt of \$2.56 billion represented 11.2 per cent of the cost of the City's assets. From a taxpayer's perspective, that is equivalent to a \$33,500 mortgage on a \$300,000 home.

Debt levels are continuously monitored to ensure the ongoing financial sustainability of the City is maintained, in accordance with the 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 2019 was \$167.6 million, which represents 5.69 per cent of the City's total own source revenues, well below the 8.5 per cent target established by Council.

Green Bond Update

As part of its overall Long-term debt issuance, the City of Ottawa also issues Green Debentures. The City of Ottawa successfully launched its inaugural Green Debenture in November 2017, which marked the first municipal Green Debenture issue in the Canadian market. The table below provides a summary of Green Debentures issued by the City of Ottawa to date.

Table 4 – Summary of Green Debentures

Date of Issue	Type of Issue	Principal Amount Issued (\$million)	Maturity Date	Debenture By-law #	Application of Debenture Proceeds	Proceeds Spending to date
Nov. 10, 2017	New	102	Nov.10, 2047	2017-355	LRT Stage 2	100%
July 26, 2019	Re-opening of Nov.10, 2047	200	Nov.10, 2047	2019-272	LRT Stage 1 LRT Stage 2	100%
May 11, 2020	New	300	May 11, 2051	2020-110	LRT Stage 2	N/A
Total Issued to date		602				

Each year, an internal verification is completed to confirm that the funds received from the Green Debenture issues have been spent in accordance with the requirements stipulated in each Debenture By-law and the City of Ottawa Green Debenture Framework. As of December 31, 2019, 100 per cent of the total debenture proceeds from the 2017 and 2019 issues have been spent on the LRT Stage 1 and Stage 2 Projects. A similar verification will be undertaken for the 2020 Green Debenture issue, and staff will provide updates to Council in the next Investment and Debt Report update for 2020.

Promissory Note Program

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. In December 2018, the City implemented its Promissory Notes (PN) program ([ACS2018-CSD-FIN-012](#)) as a key short-term borrowing mechanism, with an initial limit of \$100 million. In June 2019, City Council enacted an on-going By-Law (By-Law # 2019-268) authorizing short-term borrowing and increasing the limit of the PN program to \$500 million.

During 2019, proceeds from PN issuances, provided short-term liquidity and replaced the requirement to maintain costly short-term investment holdings. The City issued PNs with maturities ranging from one to three months. The total outstanding PN balance payable as at December 31, 2019 was \$40 million.

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 in receiving the information 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

There are no financial implications to this report.

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 is attached to this report.

DISPOSITION

No action is required.

DOCUMENT 1 – CITY OF OTTAWA HOLDINGS

Table 1: Term Exposure for the City of Ottawa Investments as at 31 December 2019

Maturity	General Funds (%)	Sinking Funds (%)
1 - 5 years	71.7%	0.0%
5 - 10 years	28.3%	3.9%
10 years or more	0.0%	96.1%
Total	100.0%	100.0%

Table 2: City of Ottawa Short-Term Credit Exposure as at 31 December 2019

Rating	Exposure Percentage
R-1 High	90.0%
R-1 Mid	10.0%
R-1 Low	0.0%
Total	100.0%

Table 3: City of Ottawa Long-Term and Sinking Fund Credit Exposure as at 31 December 2019

Rating (S&P) Equivalent	Long-Term (%)	Sinking Funds (%)
AAA/AA	78.8%	89.7%
A	21.2%	10.3%
BBB and Unrated	0.0%	0.0%
<BBB	0.0%	0.0%
Total	100.0%	100.0%

Table 4: Distribution of Investments by Sector as at 31 December 2019

All Funds	Par Value (\$1,000)	% of Total	Policy Range (%)
Federal	127,225	8.0%	100
Provincial	381,465	25.0%	80
Municipal	209,749	14.0%	50
Schedule I Bank	764,361	50.0%	50
Corporate	17,593	2.0%	25
Other - (One Fund, Blakes GIC)	19,670	1.0%	25
Total	1,520,063	100.0%	