



The Corporation of the Town of Tecumseh

Financial Services

To: Mayor and Members of Council

From: Tom Kitsos, Director Financial Services & Chief Financial Officer

Date to Council: September 10, 2019

Report Number: FS-2019-11

Subject: 2018 Annual Report on Investment and Cash Management

Recommendations

It is recommended:

That the 2018 Annual Report on Investment and Cash Management **be received** for information.

Background

Investment Policy

As per Policy #87 – Investment Policy, “the Town of Tecumseh (Town) strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet ongoing financial requirements.”

The Director Financial Services & Treasurer is required to submit an Investment Report to Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. The report is to include the following:

- Listing of individual securities held at the end of the reporting period.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.
- Average weighted yield to maturity on investments.

- A statement by the Director Financial Services & Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the Town.
- Such other information that Council may require or that, in the opinion of the Director Financial Services & Treasurer, should be included.

Policy # 87 meets the requirements set forth in *O. Reg. 438/97, Eligible Investments and Related Financial Agreements*.

Recent Legislative Changes

Amendments to the *Municipal Act, 2001* passed under the *Modernizing Ontario's Municipal Legislation Act, 2017* have been proclaimed in force as of March 1, 2018. These amendments, together with changes to *O. Reg. 438/97, Eligible Investments and Related Financial Agreements*, provide eligible municipalities with access to investing in any security in accordance with the prudent investor standard and other requirements set out in the regulation.

The legislative changes will expand municipal investment options by allowing greater choice, flexibility and portfolio diversity. This may help municipalities earn better rates of return.

To qualify for the new standard, municipalities must have (i) \$100 million in investments individually or together with one or more other municipalities, or (ii) individually have net financial assets of \$50 million as per FIR Schedule 70. Additional formal oversight, policies and monitoring measures will be required.

As of March 2019, municipalities that wish to invest under the prudent investor standard will need to pass an appropriate by-law.

There is no immediate decision or action required. Ultimately, it is up to each individual municipality to decide if this standard is appropriate based on their individual needs.

Comments

Investment Report

Table 1 contains the listing of individual securities held at the end of the reporting period, percentage of the total portfolio, and the average weighted yield to maturity with comparison values for the prior two years.

Table 1 Listing of Individual Securities Held at December 31 (\$000)

	2018			2017			2016		
<u>Term length</u>	Amount @ Dec 31	% of Funds	Ave. Int. Rate	Amount @ Dec 31	% of Funds	Ave. Int. Rate	Amount @ Dec 31	% of Funds	Ave. Int. Rate
Cash	\$ 3	0%		\$ 3	0%		\$ 3	0%	
Bank Balances	\$ 37,529	73%	2.81%	\$ 32,864	71%	2.16%	\$ 28,536	70%	1.95%
Short-Term	\$ 37,532	73%	2.81%	\$ 32,867	71%	2.16%	\$ 28,539	70%	1.95%
Drain 5 year Receivables	\$ 305	1%	3.17%	\$ 266	1%	2.72%	\$ 232	1%	3.12%
EPC Financing Agreement	\$ 1,544	3%	3.80%	\$ 1,544	3%	4.00%	\$ 1,544	4%	4.00%
Medium-Term	\$ 1,850	4%	3.71%	\$ 1,810	4%	3.83%	\$ 1,776	4%	3.93%
EPC - Equity - Common	\$ 10,565	21%	4.23%	\$ 10,085	22%	4.30%	\$ 9,746	24%	4.32%
EPC - Equity - Green	\$ 374	1%	7.00%	\$ 374	1%	7.00%	\$ 374	1%	7.00%
EPC - Equity - Total	\$ 10,939	21%	4.32%	\$ 10,459	23%	4.39%	\$ 10,120	25%	4.42%
ONE Fund - Equity	\$ 1,200	2%	0.00%	\$ 1,000	2%	0.00%	\$ 400	1%	0.00%
Long-Term	\$ 12,139	24%	0.00%	\$ 11,459	25%	0.00%	\$ 10,520	26%	0.00%
Total Funds	\$ 51,521	100%	3.09%	\$ 46,136	100%	2.65%	\$ 40,835	100%	2.56%

Note:

1. EPC - Equity - Common amount is recorded using the modified equity basis of accounting. The Town recognizes its equity interest in the annual income or loss of EPC in its Consolidated Statement of Operations with a corresponding increase or decrease in its investment account. Any dividends that the Municipality receives from EPC are reflected as reductions in the investment account. The Average Interest Rate earned is calculated based on the change in the investment account balance.
2. The percentage of funds by category remains within limits specified in Policy # 87 - Investment Policy.

Section 6.2 of the Investment Policy states that, “**Short-term** funds will be compared to the return on the three month Government of Canada Treasury Bills and the ONE Investment Program’s Money Market Fund.” The 2.81% rate of return compares favourably with the ONE Fund and Canada Treasury Bills 1 year returns for:

- High Interest Savings Account 2.09%
- Money Market Portfolio 1.43%
- Canada Treasury Bills 1.40%

Note that the Town’s rate of return for the cash balances above does not include the benefit of an absence of fees for most banking services.

Although the Investment Policy is silent on performance standards for the **medium-term** investments, the Town’s 3.71% 2018 actual return compares to:

- ONE - Universe Corporate Bond Portfolio 1.16%
- Scotia Bond Fund 1.10%

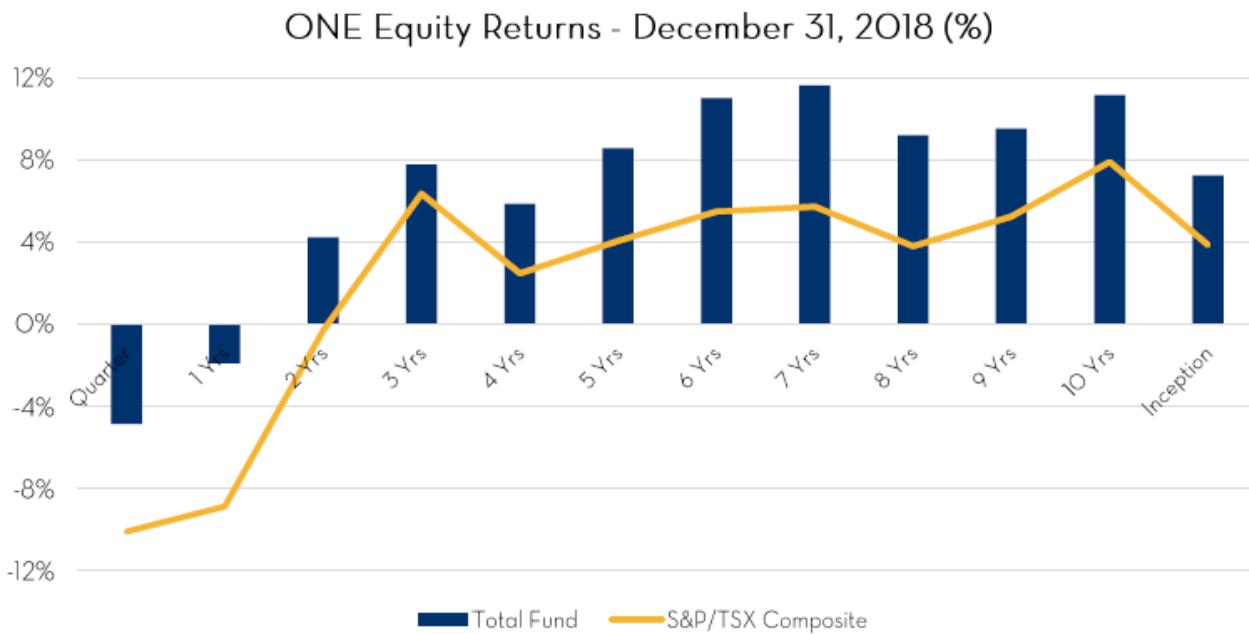
Investment Policy Performance Standards 6.3 states, “**Long-term** funds will be compared to Scotia McLeod’s All Government Short Term Bond Index and ONE Fund’s Bond Investment Program”. The Scotia McLeod Index is no longer available and is replaced by RBC Canadian Government Bond Index Fund. The Essex Power Corporation return of 4.32% compares to:

- RBC Canadian Government Bond Index Fund 1.90%
- ONE - Bond Investment Program 1.51%
- ONE - Universe Corporate Bond Portfolio 1.16%

Note that any inherent growth in the market value of Essex Power Corporation (EPC) Common shares is not reflected in the analysis within this report.

As an additional long-term investment, the Town began participating in the ONE Investment Program Equity Portfolio in 2016 under by-law 2016-15. As shown in Table 1, \$1,200,000 from the Post Retirement Reserve Fund has been invested to-date. Since these funds were not going to be required for a considerable number of years, it was felt that it would be appropriate to invest in the equity market. History has shown that the equity market, over the long term, outperforms the short and medium term markets.

Annual returns for the ONE Canadian Equity Portfolio, and the S&P/TSX Composite Index, are shown in the graph below.



As illustrated, the ONE Equity net return on an annualized basis since the Fund launched in January 2007 was 11.2%. In comparison, the S&P/TSX Composite Index had a return of 7.9%.

The following table shows the performance of the Town’s investment in the ONE Equity Portfolio:

Year	Book Value	Market Value	Annual Return	Cumulative Return*
2016	\$ 400,000	\$ 415,829	14.18%	14.18%
2017	\$ 1,000,000	\$ 1,095,684	10.97%	11.42%
2018	\$ 1,200,000	\$ 1,261,004	-3.07%	3.22%

*Since initial investment in June 2016

The table below shows the listing of investments with respective maturity dates.

Table 2				
Listing of Maturity Dates				
	Book Value	Interest Rate	Maturity Date	
Short -Term				
Cash & Bank	<u>\$ 37,532,476</u>	2.93%	N/A	
Medium-Term				
Drain 5 year Receivables				
2014	\$ 3,923	3.25%	2019	
2015	\$ 50,694	3.10%	2020	
2016	\$ 56,374	2.95%	2021	
2017	\$ 82,323	3.28%	2022	
2018	\$ 112,985	3.96%	2023	
Medium-Term Total	<u>\$ 306,299</u>			
EPC Financing Agreement	<u>\$ 1,544,408</u>	3.80%	2018	
Long-Term				
EPC - Equity - Common	\$ 10,565,419	N/A	N/A	
EPC - Equity - Green	\$ 373,943	N/A	2030	
ONE Fund - Equity	\$ 1,200,000	N/A	N/A	
Long-Term Total	<u>\$ 12,139,362</u>			

Treasurer's Statement

I, Tom Kitsos, Director Financial Services & Chief Financial Officer, hereby state that in my opinion all investments were made in accordance with the investment policies and goals adopted by the Town.

Consultations

None

Financial Implications

Actual investment income for the past three years is shown in Table 3.

Investment Income Summary		2018	2017	2016
Cash & Bank	Interest	\$ 1,098,023	\$ 744,090	\$ 637,179
Drain 5 year Receivables	Interest	8,416	6,308	4,242
EPC Financing Agreement	Interest	58,688	61,766	61,776
Total - Interest Income		67,104	68,074	66,018
EPC - Equity - Common	Dividends	446,572	433,352	420,660
EPC - Equity - Green	Dividends	26,176	26,176	26,176
Total - EPC Equity Dividends		472,748	459,528	446,836
ONE Fund - Equity		-	-	-
Total - Dividend Income		472,748	459,528	446,836
Total Investment Income		\$ 1,570,771	\$ 1,271,692	\$ 1,150,033

Investment income represents approximately 4% of the total revenues of the Town as per the 2018 Consolidated Statement of Operations and Accumulated Surplus.

Link to Strategic Priorities

Applicable	2019-22 Strategic Priorities
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- Make the Town of Tecumseh an even better place to live, work and invest through a shared vision for our residents and newcomers.
- Ensure that Tecumseh’s current and future growth is built upon the principles of sustainability and strategic decision-making.
- Integrate the principles of health and wellness into all of Tecumseh’s plans and priorities.
- Steward the Town’s “continuous improvement” approach to municipal service delivery to residents and businesses.
- Demonstrate the Town’s leadership role in the community by promoting good governance and community engagement, by bringing together organizations serving the Town and the region to pursue common goals.

Communications

Not applicable

Website Social Media News Release Local Newspaper

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Nick Meloche, CPA, B.Com
Financial Analyst Revenue

Reviewed by:

Tom Kitsos, CPA, CMA, BComm
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP
Chief Administrative Officer

Attachment Number	Attachment Name
None	None