



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: June 9, 2020

Report Number: FS-2020-08

Subject: 2019 Annual Report on Investment and Cash Management

Recommendations

It is recommended:

That the 2019 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)								
	2019			2018			2017		
Term length	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	\$ 44,534	76%	2.99%	\$ 37,529	73%	2.81%	\$ 32,864	71%	2.16%
Short-Term	\$ 44,537	76%	2.99%	\$ 37,532	73%	2.81%	\$ 32,867	71%	2.16%
Drain 5 year Receivables	\$ 262	0%	3.19%	\$ 305	1%	3.17%	\$ 266	1%	2.72%
EPC Financing Agreement	\$ 1,544	3%	3.80%	\$ 1,544	3%	3.80%	\$ 1,544	3%	4.00%
Medium-Term	\$ 1,806	3%	3.70%	\$ 1,849	4%	3.71%	\$ 1,810	4%	3.83%
EPC - Equity - Common	\$ 10,693	18%	4.30%	\$ 10,565	21%	4.23%	\$ 10,085	22%	4.30%
EPC - Equity - Green	\$ 374	1%	7.00%	\$ 374	1%	7.00%	\$ 374	1%	7.00%
EPC - Equity - Total	\$ 11,067	19%	4.39%	\$ 10,939	21%	4.32%	\$ 10,459	23%	4.39%
ONE Fund - Equity	\$ 1,400	2%	0.00%	\$ 1,200	2%	0.00%	\$ 1,000	2%	0.00%
Long-Term	\$ 12,467	21%	0.00%	\$ 12,139	24%	0.00%	\$ 11,459	25%	0.00%
Total Funds	\$ 58,811	100%	3.20%	\$ 51,520	100%	3.09%	\$ 46,136	100%	2.65%
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 2.99% rate of return compares favourably with the ONE Fund and Canada Treasury Bills 1 year returns for:

- High Interest Savings Account 2.44%
- Money Market Portfolio 1.68%
- Canada Treasury Bills 1.66%

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 3.70% 2019 actual return compares to:

- ONE - Universe Corporate Bond Portfolio 4.96%
- Scotia Bond Fund 4.70%

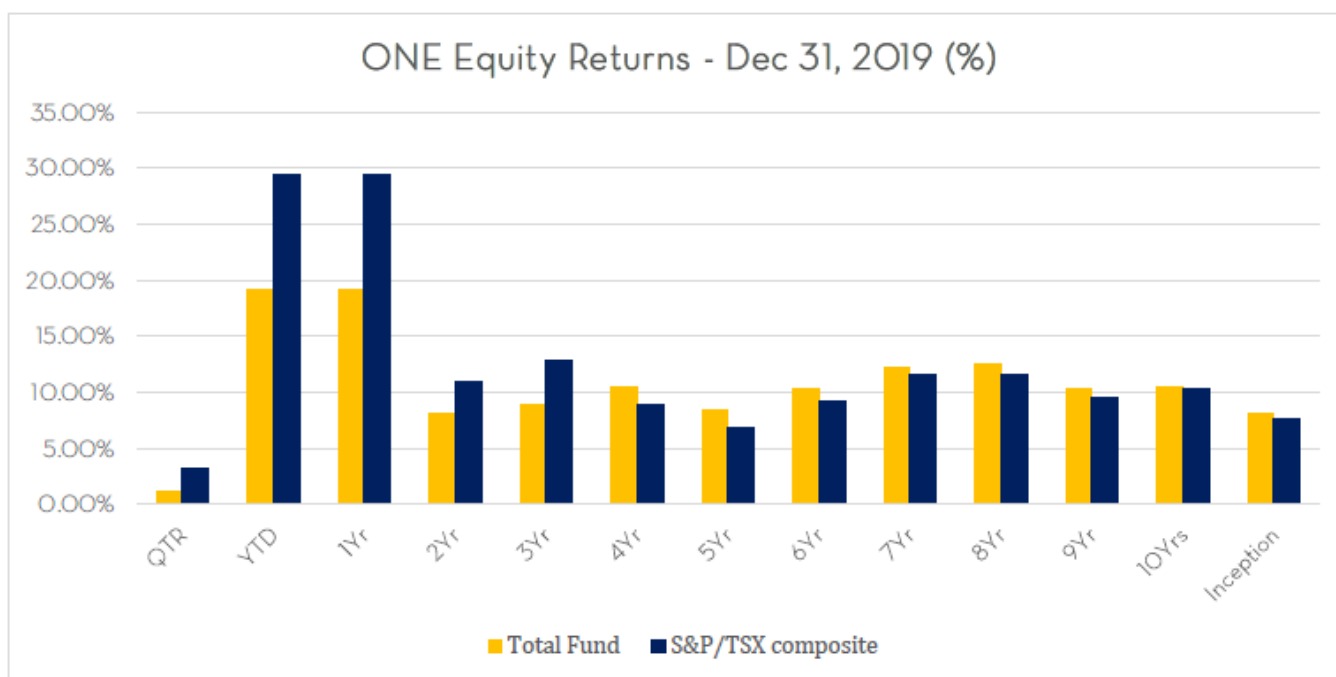
Investment Policy Performance Standards 6.3 states, “**Long-term** funds will be compared to Scotia McLeod’s All Government Short Term Bond Index and ONE Fund’s Bond Investment Program.” The Scotia McLeod Index is no longer available and is replaced by RBC Canadian Government Bond Index Fund. The Essex Power Corporation return of 4.39% compares to:

- RBC Canadian Government Bond Index Fund 3.20%
- ONE - Bond Investment Program 2.61%
- ONE - Universe Corporate Bond Portfolio 4.96%

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, \$1,400,000 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, over the past three, five and 10 years, the ONE Equity Portfolio has outperformed the S&P/TSX composite index by 2.1%, 2.1% and 3.6% respectively.

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%
2019	\$1,399,999	\$ 1,713,193	17.48%	14.72%
*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>\$ 44,537,897</u>	3.11%	N/A
Medium-Term			
Drain 5 year Receivables			
2014	\$ -	3.25%	2019
2015	\$ 25,734	3.10%	2020
2016	\$ 38,111	2.95%	2021
2017	\$ 62,725	3.28%	2022
2018	\$ 75,328	3.96%	2023
2019	\$ 60,047	4.00%	2024
Medium-Term Total	<u>\$ 261,945</u>		
EPC Financing Agreement	<u>\$ 1,544,408</u>	3.80%	2019
Long-Term			
EPC - Equity - Common	\$ 10,693,419	N/A	N/A
EPC - Equity - Green	\$ 373,943	N/A	2030
ONE Fund - Equity	\$ 1,399,999	N/A	N/A
Long-Term Total	<u>\$ 12,467,361</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.

Table 3				
Investment Income Summary		2019	2018	2017
Cash & Bank	Interest	\$ 1,383,367	\$ 1,098,023	\$ 744,090
Drain 5 year Receivables	Interest	9,721	8,416	6,308
EPC Financing Agreement	Interest	58,688	58,688	61,766
Total - Interest Income		68,409	67,104	68,074
EPC - Equity - Common	Dividends	460,099	446,572	433,352
EPC - Equity - Green	Dividends	26,176	26,176	26,176
Total - EPC Equity Dividends		486,275	472,748	459,528
ONE Fund - Equity		-	-	-
Total - Dividend Income		486,275	472,748	459,528
Total Investment Income		\$ 1,869,642	\$ 1,570,771	\$ 1,271,692

Link to Strategic Priorities

Applicable 2019-22 Strategic Priorities

- ☐ 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**

None

**Attachment
Name**

None