

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

Item 6, Report No. 8, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on June 25, 2013.

6

2012 ANNUAL INVESTMENT REPORT

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Acting Commissioner of Finance & City Treasurer and the Director of Development Finance & Investments, dated June 10, 2013:

Recommendation

The Acting Commissioner of Finance & City Treasurer and the Director of Development Finance & Investments recommend:

1. That this report be received for information.

Contribution to Sustainability

Not applicable.

Economic Impact

Investment income generated from the investment portfolio in 2012 amounted to \$14.1 million. Investment earnings are distributed to the City's reserve funds and operating budget, which helps to reduce the need for tax based funding and build reserve balances. The Operating Budget for 2012 Investment Income was \$3.0 million. The actual Investment Income allocated to the Operating Budget was \$3.58 million, which provided a surplus of \$583,000.

Communications Plan

Not applicable.

Purpose

To report to Council on the City's investment portfolio activities during the year 2012, as required by Ontario Regulation 438/97 (as amended) of the *Municipal Act* and the City's Investment Policy.

Background - Analysis and Options

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97, as amended to O. Regulation 292/09 outlines the criteria for eligible investments. The City's investment policy approved by Council in December 2009 conforms to this legislation and acts as the governing guideline in managing the City's investment portfolio.

The reporting requirements in the City's investment policy and the Municipal Act require the Treasurer or designate 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 submitted to Council each year must contain the following:

- a) Listing of individual securities held at the end of the reporting period;
- b) Listing of investments by maturity date;
- c) Realized and unrealized gains or losses resulting from investments that were not held until maturity;
- d) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

Item 6, Finance Report No. 8 – Page 2

- e) Percentage of the total portfolio which each type of investment represents; and
- f) A statement about the performance of the investment portfolio during the period covered by the report.

The Development Finance & Investment Department manages the investment portfolio for the City with a maturity value of approximately \$515.7 million (cash and investments) at December 31, 2012 (\$452.5 million 2011), (Attachment 1). These funds represent the funding requirements for day to day operations of the corporation and represent investment funds held in the reserves, reserve funds, working capital and other funds of the organization. The credit quality of all investments is in compliance with the City's Investment Policy and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

2012 Economic Environment

The financial credit crisis caused Central banks across the globe to lower interest rates to historic lows during 2008 and 2009. These low rates continued into 2010. The Bank of Canada began removing monetary stimulus in 2010 raising the overnight rate to 1%. The overnight rate remained unchanged at 1% throughout 2011 and 2012.

In the April 2012 Monetary Policy Report the Bank acknowledged Canada's economy was improving at a much faster pace than had been expected, partially driven by household spending and business investment. The US economy showed signs of improvement and there were measures taken in Europe to address the sovereign debt and banking crisis thereby improving market sentiment. The Bank projected the Canadian economy to grow by 2.4% in 2012 and 2013.

As the year progressed global financial conditions deteriorated, which weighed on financial markets. There were renewed fears about the European sovereign debt and the stability of their banking system. The US economy expanded at a more moderate pace than had been expected. China's economy was slowing as demand for exports weakened. Investors seeking safety and liquidity moved their funds to government bonds driving bond yields to record lows. European policy makers eventually implemented measures to contain the crisis, thus calming market fears.

In the beginning of 2012 the Bank had signaled a possible rate hike, however, the Canadian economy slowed in the second half of the year more than expected as global demand for Canadian exports became subdued. As a result, consideration of a rate hike was removed for 2012. The Bank of Canada has downwardly revised the economic forecast to growth of 1.5% in 2013 and 2.8% in 2014.

2012 City of Vaughan Investment Performance

During 2012 the investment portfolio generated investment income in the amount of \$14.1 million. As a basis of year over year comparison, the City's investment income was \$13.1 million in 2010, and \$14.0 million, plus \$1 million in capital gains from the sale of bonds for 2011. The City's Money Market portfolio (total holdings of \$361.8 million) averaged a rate of return of 1.32% outperforming the 90 day T-bill rate of 0.95% by 0.37 % and exceeded the ONE Money Market Fund return of 1.04% by 0.28%. The City's Bond Fund portfolio (total holdings of \$153.9 million) averaged a rate of return of 5.23% outperforming the ONE Bond Fund return of 3.55% by 1.68%. The ONE Fund, a benchmark used by the City, is a pooled investment fund sponsored by the Association of Municipalities of Ontario (AMO) and the Municipal Finance Officers' Association (MFOA) for Ontario municipalities.

A large amount of cash is being held in the City's bank account due to the higher rate of return than the current yields of both long term bonds and Money Market instruments. At the end of the year the bank account earned a rate of return of 1.25% while a Money Market instrument earned 1.11% resulting in a high cash balance in the City's bank account.

CITY OF VAUGHAN

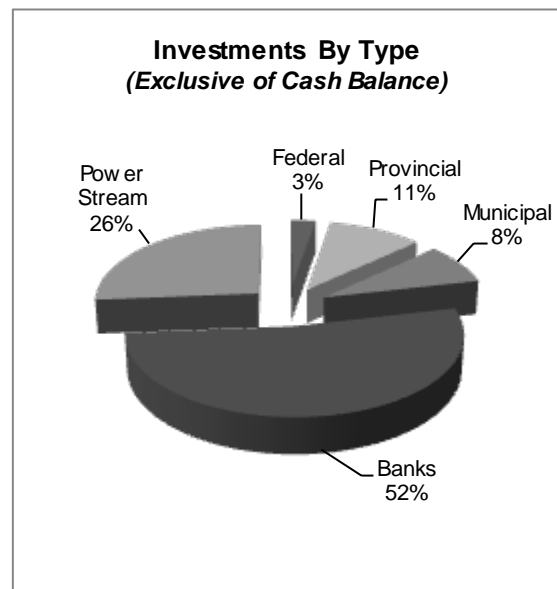
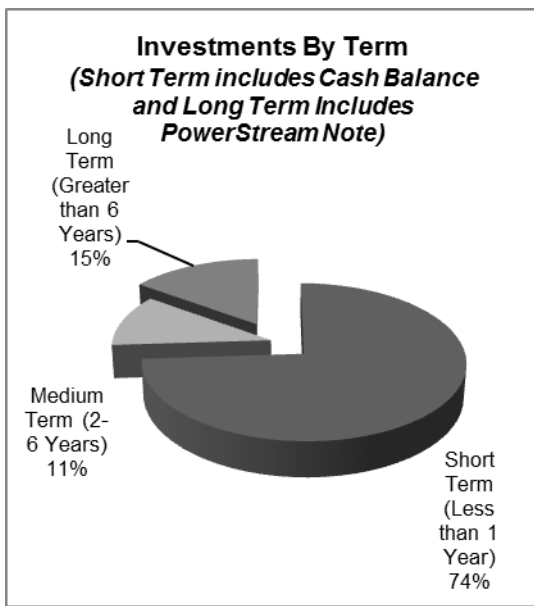
EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

Item 6, Finance Report No. 8 – Page 3

Over the past number of years, the City's investment program has changed its focus from just providing liquidity for the day-to-day operations to a long term reserve management. This change focused on transforming the investment portfolio from a short term money market portfolio to one that is more diversified in terms of credit and term exposure. In 2012 there were no bonds purchases due to the historical low interest rates and volatile bond market. Staff is monitoring the bond market and will resume purchasing bonds as interest rates rise.

Summary of Holdings

The following charts provide a percentage overview of the City's holdings as of December 31, 2012 by both term and by type. The details of these holdings may be found in Attachments 1 and 2.



2013 Performance Expectations

As noted in the economic environment section previously discussed, the Bank of Canada downwardly revised the Canadian growth forecast from 2.4% to 1.5% in 2013. The City of Vaughan's Investment Income budgets for 2013 reflected the original bank forecast adjusted for a level of conservatism. The actual results will therefore likely be very close to budget or slightly underperform. The Q1 2013 results already show an unfavourable variance of \$227,000, however in addition to economic conditions this may also be affected by the timing of financial entries.

The Bank of Canada expects some recovery over 2014 and 2015. Economists are predicting the first rate hike will be in the first quarter of 2014. In anticipation of the 2014 rate hike short-term and mid-term rates are expected to rise by the end of 2013.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

Item 6, Finance Report No. 8 – Page 4

Conclusion

In 2012 the City's investment portfolio performed well given the weak global economic and financial market conditions. Increased investment income revenue contributes to reserves and reduces the need for tax based funding. Investments were in compliance with the City's Investment Policy approved by Council December 14, 2009 and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

Attachments

Attachment 1 – Listing of Securities Held As At December 31, 2012

Attachment 2 – Investments Held by Institution

Report prepared by:

Terry Liuni Ext 8354
Development Finance Supervisor

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

2012 ANNUAL INVESTMENT REPORT

Recommendation

The Acting Commissioner of Finance & City Treasurer and the Director of Development Finance & Investments recommend:

1. That this report be received for information.

Contribution to Sustainability

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Economic Impact

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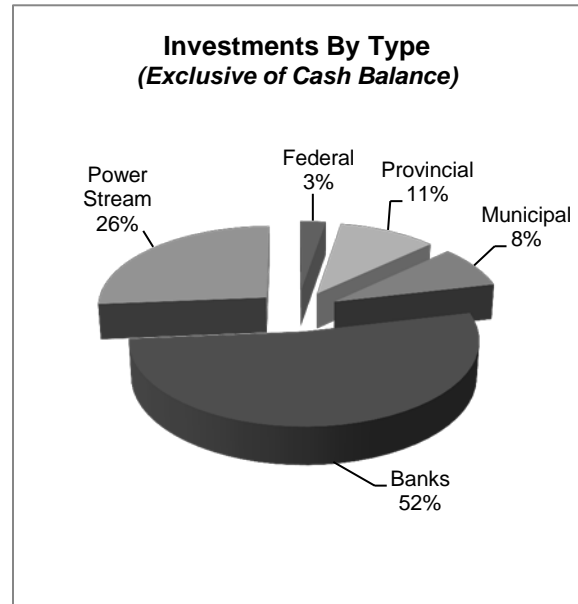
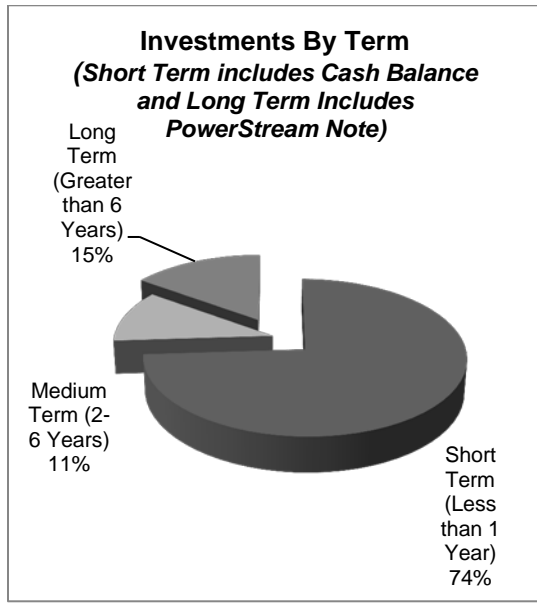
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Report prepared by:

Terry Liuni Ext 8354
Development Finance Supervisor

Respectfully submitted,

John Henry, CMA
Acting Commissioner of Finance & City Treasurer

Lloyd Noronha
Director of Development Finance and Investments

City of Vaughan Investments-as at December 31, 2012

Attachment 1

SETTLEMENT	MATURITY/SOLD	YIELD	TERM	PAR VALUE	MATURITY \$	SETTLEMENT \$	NO.	TYPE*	INSTITUTION
Sep 28, 2012	Jan 2, 2013	1.55%	96	30,000,000.00	30,122,301.37	30,000,000.00	2012-030	M	TD Term Dep
Oct 17, 2012	Jan 17, 2013	1.50%	92	10,000,000.00	10,037,808.22	10,000,000.00	2012-031	M	TD Term Dep
Nov 13, 2012	Feb 11, 2013	1.50%	90	10,000,000.00	10,036,986.30	10,000,000.00	2012-032	M	TD Term Dep
Jun 13, 2008	Feb 13, 2013	4.89%	1706	2,000,000.00	2,000,000.00	2,029,982.68	2008-103	B	TD Bond
Nov 19, 2012	Feb 19, 2013	1.50%	92	10,000,000.00	10,037,808.22	10,000,000.00	2012-033	M	TD Term Dep
Nov 30, 2012	Mar 4, 2013	1.50%	94	5,000,000.00	5,019,315.07	5,000,000.00	2012-034	M	TD Term Dep
Mar 5, 2012	Mar 5, 2013	1.40%	365	10,000,000.00	10,140,000.00	10,000,000.00	2012-007	M	CIBC GIC
Dec 6, 2010	Mar 14, 2013	2.31%	829	1,000,000.00	1,000,000.00	1,062,063.97	2010-024	B	BMO
Dec 21, 2012	Mar 21, 2013	1.50%	90	9,000,000.00	9,033,287.67	9,000,000.00	2012-035	M	TD Term Dep
Mar 23, 2012	Mar 25, 2013	1.45%	367	10,000,000.00	10,145,794.52	10,000,000.00	2012-011	M	CIBC GIC
May 31, 2012	May 31, 2013	1.40%	365	30,000,000.00	30,420,000.00	30,000,000.00	2012-018	M	CIBC GIC
Jun 1, 2012	Jun 1, 2013	5.58%	365	78,236,285.00	78,236,285.00	78,236,285.00	n/a		PowerStream
Oct 20, 2008	Jun 2, 2013	3.94%	1686	2,000,000.00	2,000,000.00	2,103,838.36	2008-195	B	Prov of Ont
Jun 6, 2008	Jun 3, 2013	3.74%	1823	1,000,000.00	1,000,000.00	1,005,216.44	2008-097	B	Alberta treasury
Jun 1, 2012	Jun 3, 2013	1.40%	367	10,000,000.00	10,140,767.12	10,000,000.00	2012-020	M	CIBC GIC
Jul 4, 2012	Jul 4, 2013	1.40%	365	10,000,000.00	10,140,000.00	10,000,000.00	2012-023	M	CIBC GIC
Nov 5, 2008	Aug 23, 2013	3.90%	1752	2,000,000.00	2,000,000.00	2,433,265.75	2008-214	B	Prov of BC
Nov 5, 2009	Oct 30, 2013	2.73%	1455	3,000,000.00	3,000,000.00	3,208,648.77	2009-054	B	Scotia
Dec 6, 2010	Oct 30, 2013	2.57%	1059	1,000,000.00	1,000,000.00	1,059,822.47	2010-025	B	Scotia
Oct 29, 2009	Dec 1, 2013	2.72%	1494	3,000,000.00	3,000,000.00	3,312,410.96	2009-052	B	Canada Housing Trust
Oct 20, 2008	Dec 3, 2013	4.15%	1870	2,000,000.00	2,000,000.00	2,106,120.55	2008-193	B	BC Mun Fin
Oct 23, 2008	Dec 3, 2013	4.01%	1867	2,000,000.00	2,000,000.00	2,116,686.03	2008-205	B	BC Mun Fin
Mar 5, 2010	Mar 5, 2014	2.94%	1461	2,288,000.00	2,288,000.00	2,284,568.00	2010-001	B	Peterborough
Oct 20, 2008	Mar 8, 2014	4.14%	1965	2,000,000.00	2,000,000.00	2,093,306.85	2008-196	B	Prov of Ont
Jun 23, 2009	Apr 30, 2014	3.61%	1772	4,000,000.00	4,000,000.00	4,234,287.12	2009-048	B	BMO
Oct 20, 2008	Jun 18, 2014	4.15%	2067	3,000,000.00	3,000,000.00	3,225,916.44	2008-198	B	Prov of BC
Oct 21, 2008	Jun 18, 2014	4.17%	2066	5,000,000.00	5,000,000.00	5,371,753.42	2008-202	B	Prov of BC
Aug 17, 2009	Jul 16, 2014	3.32%	1794	900,000.00	900,000.00	907,341.41	2009-049	B	Scotia
May 29, 2009	Oct 29, 2014	3.50%	1979	1,500,000.00	1,500,000.00	1,608,821.10	2009-043	B	Toronto
Oct 21, 2009	Dec 1, 2014	2.78%	1867	5,000,000.00	5,000,000.00	4,854,904.11	2009-051	B	Gov of Can
Oct 29, 2009	Dec 1, 2014	3.02%	1859	4,000,000.00	4,000,000.00	3,954,019.18	2009-053	B	Prov of Alberta
Nov 5, 2009	Dec 1, 2014	2.88%	1852	5,000,000.00	5,000,000.00	4,977,910.96	2009-055	B	Prov of Alberta
Jul 29, 2008	Dec 2, 2014	4.24%	2317	2,000,000.00	2,000,000.00	2,088,264.11	2008-130	B	BC Mun Fin
Aug 14, 2008	Dec 2, 2014	4.03%	2301	1,000,000.00	1,000,000.00	1,057,990.00	2008-141	B	BC Mun Fin
Sep 23, 2008	Mar 8, 2015	4.14%	2357	2,000,000.00	2,000,000.00	2,044,098.63	2008-178	B	Prov of Ont
Jul 29, 2008	May 25, 2015	4.46%	2491	3,300,000.00	3,300,000.00	3,354,158.88	2008-129	B	Region of York
Sep 24, 2008	Nov 23, 2015	4.48%	2616	2,000,000.00	2,000,000.00	2,064,933.97	2008-179	B	Halton
Mar 5, 2010	Mar 5, 2016	3.65%	2192	2,286,000.00	2,286,000.00	2,286,000.00	2010-002	B	Peterborough

City of Vaughan Investments-as at December 31, 2012

SETTLEMENT	MATURITY/SOLD	YIELD	TERM	PAR VALUE	MATURITY \$	SETTLEMENT \$	NO.	TYPE*	INSTITUTION
Jun 10, 2009	Mar 8, 2016	3.75%	2463	2,000,000.00	2,000,000.00	2,099,863.01	2009-045	B	Prov of Ont
Sep 5, 2008	Jun 15, 2016	4.01%	2840	1,000,000.00	1,000,000.00	1,032,372.60	2008-159	B	Alberta Cap Fin
Sep 24, 2008	Jun 15, 2016	4.33%	2821	2,000,000.00	2,000,000.00	2,026,473.97	2008-180	B	Alberta Cap Fin
Sep 24, 2008	Sep 28, 2016	4.73%	2926	800,000.00	800,000.00	805,593.42	2008-181	B	Region of York
Jan 17, 2008	May 30, 2017	4.42%	3421	1,000,000.00	1,000,000.00	1,019,449.32	2008-007	B	Region of York
Aug 14, 2008	Jun 19, 2017	4.48%	3231	1,000,000.00	1,000,000.00	1,211,523.29	2008-138	B	Region of York
Jun 9, 2009	Sep 14, 2018	4.78%	3384	1,600,000.00	1,600,000.00	2,074,016.44	2009-044	B	Edmonton
Apr 29, 2009	Apr 29, 2019	5.03%	3652	1,000,000.00	1,000,000.00	997,590.00	2009-038	B	Region of York
Jun 30, 2011	Jun 30, 2021	4.02%	3653	1,000,000.00	1,000,000.00	998,690.00	2011-019	B	Region of York
Subtotal				297,910,285.00					
Cash in Bank				217,746,570.28					
Total				515,656,855.28					
	* B - Bond								
	M- Money Market								

**City of Vaughan
Investments Held by Issuer
December 31, 2012**

Issuer	Amount	Policy Limit	% of Limit	% of Total
Federal				
<u>Short Term:</u>				
Government of Canada	-	297,910,285	0.0%	0.0%
<u>Long Term:</u>				
Government of Canada	5,000,000	208,537,200	2.4%	1.7%
Subtotal	5,000,000	297,910,285	1.7%	1.7%
 <u>Federal Guarantees</u>				
<u>Long Term:</u>				
Canada Housing Trust	3,000,000	74,477,571	4.0%	1.0%
Subtotal	3,000,000	148,955,143	2.0%	1.0%
Federal Total	8,000,000	297,910,285	2.7%	2.7%
 Provincial				
<u>Short Term:</u>				
Province of Ontario	-	74,477,571	0.0%	0.0%
Total (Short Term)	-	238,328,228	0.0%	0.0%
 <u>Long Term</u>				
Province of Ontario	8,000,000	74,477,571	10.7%	2.7%
Province of Alberta	13,000,000	74,477,571	17.5%	4.4%
Province of British Columbia	10,000,000	74,477,571	13.4%	3.4%
Subtotal- AAA/AA	31,000,000	208,537,200	14.9%	10.4%
Provincial Total	31,000,000	238,328,228	13.0%	10.4%

Issuer	Amount	Policy Limit	% of Limit	% of Total
Municipal				
<u>Long Term</u>				
Regional Municipality of York	8,100,000	29,791,029	27.2%	2.7%
Region of Halton	2,000,000	29,791,029	6.7%	0.7%
BC Municipal Finance Authority	7,000,000	29,791,029	23.5%	2.3%
Subtotal- AAA	17,100,000	104,268,600	16.4%	5.7%
City of Edmonton	1,600,000	14,895,514	10.7%	0.5%
City of Peterborough	4,574,000	14,895,514	30.7%	1.5%
City of Toronto	1,500,000	14,895,514	10.1%	0.5%
Subtotal- AA	7,674,000	44,686,543	17.2%	2.6%
Municipal Total	24,774,000	104,268,600	23.8%	8.3%
Banks				
<u>Short Term:</u>				
CIBC	70,000,000	74,477,571	94.0%	23.5%
Toronto Dominion Bank	74,000,000	74,477,571	99.4%	24.8%
Total (Short Term)	144,000,000	238,328,228	60.4%	48.3%
<u>Long Term:</u>				
Toronto Dominion Bank	2,000,000	29,791,029	6.7%	0.7%
Bank of Montreal	5,000,000	29,791,029	16.8%	1.7%
Bank of Nova Scotia	4,900,000	29,791,029	16.4%	1.6%
Royal Bank of Canada	-	29,791,029	0.0%	0.0%
Subtotal Banks	11,900,000	59,582,057	20.0%	4.0%
Total Banks	155,900,000	238,328,228	65.4%	52.3%
<u>Other:</u>				
PowerStream	78,236,285	n/a		26.3%
Total Other	78,236,285			26.3%
Total	\$297,910,285			

Note: excludes cash in bank
% Totals are rounded