



Town of Newmarket
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ONE Investment Staff Report to Council

Report Number: 2022-09

Department(s): Financial Services

Author(s): Mike Mayes, Director of Financial Services/Treasurer

Meeting Date: February 28, 2022

Recommendations

1. That the report entitled ONE Investment dated February 28, 2022 be received; and,
2. That ONE Investment portfolios be added to the municipality's investment policy as an allowable investment option, as the securities held in the ONE Portfolios consist exclusively of highly-rated, diversified investment instruments that are guaranteed to be eligible investments as defined in O.Reg. 438/97 (as amended) under the Municipal Act; and,
3. That the attached draft by-law be enacted; and,
4. That Council endorse the investment goals set out in this report; and,
5. That the Treasurer be authorized and directed to do all things necessary to give effect to these recommendations.

Executive Summary

With Council's prior approval, the Town called for payment of its \$22 million promissory note with Newmarket-Tay Power Distribution Limited (NT Power). These funds have been received and will be invested with ONE Investment.

The return on this investment and any dividends received from NT Power will be applied to the Asset Replacement Fund. Reserve fund contributions from the tax-supported budget will be reduced to offset this change.

Purpose

The purpose of this report is to provide Council with an update on the call of the promissory note from NT Power and the resulting budget adjustments; and to confirm Council's previous consent to the use of ONE Investment as an eligible investment option.

Background

Reallocation of investment income from Newmarket-Tay Hydro

On December 13, 2021, Council adopted the following recommendations of [Report 2021-96, Hydro Revenue Review](#):

- That the Town of Newmarket demand payment of its \$22 million promissory note with Newmarket-Tay Hydro Inc.
- That investment income received from Newmarket-Tay Power Distribution Ltd. be transferred from the tax-supported operating budget to the Asset Replacement Fund effective January 1, 2022; and,
- That the tax-supported contributions to the Asset Replacement Fund be reduced by the budgeted amount as an asset;

The call was issued to NT Power and the Town received payment in full of \$22 million on February 3, 2022. In accordance with our existing practice, the accrued interest of \$108,999 will be paid with the next quarterly rent payment.

The following table summarizes the budget changes that will be made in 2022 resulting from this transaction¹:

	Original budget	Revisions	Revised budget
Tax-supported operating budget			
Investment income	\$ 1,205,600	\$ (1,205,600)	\$ 0
ARF contributions	5,714,216	(1,205,600)	4,508,616
Net	\$ 4,508,616	\$ 0	\$ 4,508,616
Asset Replacement Fund (ARF) budget			
Investment income ²	\$ 32,000	\$ 1,205,600	\$ 1,237,600
ARF contributions	16,426,515	(1,205,600)	15,220,915
Total	\$ 16,458,515	\$ 0	\$ 16,458,515

¹ In addition, the 2022 dividend will also be reallocated to the ARF.

² The Reserve Fund Investment Income budget for 2022 has not been finalized yet. The amount of \$32,000 is an initial estimate provided for illustrative purposes to provide an idea of magnitude.

Changes to the Statement of Financial Position

The Town's Statement of Financial Position ("balance sheet") will be improved. Here are some excerpts showing the changes that would have shown on the 2020 financial statements if the funds had been received then.

	Original balances	Revisions	Revised balances
Financial Assets			
Temporary investments	\$ 64,834,304	\$ 22,000,000	\$ 86,834,304
Investment in Newmarket Hydro Holdings Inc	67,998,430	(22,000,000)	45,998,430
Accumulated Surplus			
Total Reserves and Reserve Funds	\$ 71,508,647	\$ 22,000,000	\$ 93,508,647
Equity in Newmarket Hydro Holdings Inc	67,998,430	(22,000,000)	45,998,430

The \$22 million shows as a transfer between investments, and increases Total Reserves and Reserve Funds by 31%. This will show positively in our comparators for reserve levels with other municipalities.

Invest with ONE Investment

The Hydro Revenue Review Report suggests that the funds from the promissory note be invested with ONE investment. The existing Investment Policy, FIN 3.01, adopted by Council on April 16, 2012, included Municipal Investment Pools, such as ONE Investment, is in the list of eligible investments.

See Appendix A for detailed information on ONE Investment.

The Treasurer has initiated discussions.

Discussion

Although Council had previously authorized the use of ONE Investment with the Investment Policy and the Hydro Revenue Review Report, confirmation is being sought. ONE has requested a separate by-law and suggested the wording for the recommendation in this report. In consideration of the amounts involved, this is prudent.

Investment Goals

Two investment goals are:

1. Maintenance of the principle amount of \$22 million

Previously, the annual interest on the promissory (\$1,205,600) was included in the base budget. After the call, it is still factored into the base budget by a reduction in contributions to the Asset Replacement Fund. To ensure that there is no adverse impact on the reserve fund budget, the Town should continue to invest the \$22 million to offset the decrease in contributions.

The funds should be treated as an endowment, with the principle maintained and not drawn down.

2. Setting a 40% limit for holdings in equity-based investments

The preliminary business case was based on investing in One Investment's Canadian Equity Portfolio as it has the potential to have rates comparable to what we had been receiving on the promissory note.

Equity investments do have a higher risk; however, as the investments are in high quality securities, the risk is not to the principle, but to fluctuations in short-term returns. The stock market outperforms the money market in the long run but not necessarily in any given individual year. This matches well with long-term infrastructure funding, and capital asset maintenance and remediation (aka; Asset Management), but not with short-term needs.

Consistent with ONE's recommendations, it would be prudent to limit our investment in the equity market to 40% of our investment portfolio.

	Projected current balances	% of total portfolio
Temporary investments	\$ 60,000,000	73%
Equity investments	22,000,000	27%
Total	\$ 82,000,000	100%

This would allow for an additional 13% to be invested in equity markets - another \$10 million. The development of multi-year capital plans and cash-flow would support such decisions in the future. Meanwhile, adding ONE Investment to our roster of investment options may increase our returns in the money market.

Conclusion

Next steps will be the signing of an agreement with ONE Investment and transferring funds to them. The funds would be transferred in tranches to average out the purchase price:

- March 8 - \$5.5 million
- June 8 - \$5.5 million
- September 8 - \$5.5 million
- December 8 - \$5.5 million

Funds would be invested in short-term money market instruments until they are transferred.

Quarterly investment reporting will be enhanced to provide details on our ONE Investment and equity holdings

Business Plan and Strategic Plan Linkages

This initiative supports two priorities under Council's strategic pillar of Long-term Financial Sustainability.

- Develop a multi-year operating and capital budget that aligns with Budget Policies.

These long-term investments, which are subject to annual fluctuations, are better suited to the long-term needs of the capital budget. Moving them to the reserve funds enables that.

- Ensure ongoing continuous improvement and a service level analysis for consideration. Utilize both internal and external resources to complete an assessment of the Town's overall financial health to support effective and efficient long-term planning.

The Fiscal Strategy recommended enhancing funding for the Asset Replacement Fund, including reallocation of investment income from our utility investments.

Consultation

Staff from NT Power, ONE Investment and the Municipal Finance Officers Association have provided assistance.

Human Resource Considerations

Not applicable to this report.

Budget Impact

There is no impact on the tax-supported operating budget: the reduction in investment income is offset by a corresponding reduction in contributions to the Asset Replacement Fund.

There will be an impact on Asset Replacement Fund revenues. For fiscal 2022 and the short-term, it is possible that investment income will fall short of target. It is also possible, that returns will exceed the target. The latter probability increases with time and with the transfer of dividends.

Attachments

Appendix A - Background Information Provided by ONE Investment

Appendix B – One Investment Draft By-law

Approval

Mike Mayes, CGA, CPA, DPA
Director, Financial Services / Treasurer

Esther Armchuk, LL.B
Commissioner, Corporate Services

Contact

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