



**Mike Mayes, Director
Financial Services/Treasurer**

TOWN OF NEWMARKET
395 Mulock Drive
P.O. Box 328
Newmarket, ON L3Y 4X7

www.newmarket.ca
mmayes@newmarket.ca
905.895.5193 ext. 2102

March 3, 2014

CORPORATE SERVICES REPORT - FINANCIAL SERVICES - 2014-03

TO: Mayor Tony Van Bynen and Members of Council
Committee of the Whole

SUBJECT: Investment Activities and Returns – Annual Report for 2013

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATION

THAT Corporate Services Report - Financial Services – 2014-03 dated March 3, 2014 regarding Investment Activities and Returns – Annual Report for 2013 be received for information purposes.

COMMENTS

Purpose

The purpose of this report is to report on the preliminary results of investment activities and returns in 2013.

Budget Impact

In 2013, there was \$59,176 in incremental income earned. \$50,000 will be transferred to the Operating fund and the remaining \$9,176 will be allocated to the Reserve Funds.

Summary

The Treasurer can confirm that all investment activities comply with the Municipal Act, the Town's Investment Policy and Investment Strategy.

A long-term cashflow has been developed for our reserves which projects that \$25 million is available for investing over the next 10 years. \$5 million was used to purchase a 2-year GIC. \$20 million has been set aside for the Region's investment portfolio management program or for other Council priorities.

Background

Council approved an Investment Policy on April 16, 2012. In terms of reporting, it states:

The Treasurer shall submit a report to Council on investment activities and returns at least annually, including but not limited to, the following:

- *List of individual securities held at the end of the reporting period;*
- *Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over a one-year duration that are not intended to be held until maturity;*
- *Average weighted yield to maturity on investments as compared to applicable benchmarks;*
- *Percentage of total portfolio which each type of investment represents;*
- *A statement by the Treasurer as to whether or not, in his or her opinion, all investments made were in line with the investment policies and goals adopted by the Town; and*
- *Such other information that the Council may require or that, in the opinion of the Treasurer, should be included.*

Analysis & Options

Financial Services report 2013-25 dated September 12, 2013 established an Investment Strategy to further expand on this. There are 9 elements to this strategy.

1. Projection of future cash requirements

The preparation of a long-term cashflow projection was a challenge as the Town does not currently have multi-year operating and capital budgets or forecasts. The following factors were taken into consideration in projecting the availability of cash for investment purposes:

- Operating budgets are self-financing over the long term, so investments will be made from the projected residual cash in the Reserves and Reserve Funds. Reserves and Reserve Funds are fully allocated by Council for specific purposes but, due to their long cash cycle between collection and disbursement, there are unused balances at any point in time.
- Asset Replacement Funds have been excluded, as our current forecasts show them being fully utilized with the next 10 years.
- Incremental development-related revenues (parkland cash-in-lieu contributions, Development Charges, etc.) have not been included, on the assumption that incremental amounts will be spent on incremental requirements.

This analysis determined that \$25 million is and will be available for investment purposes over the next 10 years. On this basis, in 2013, a \$5 million GIC was purchased. That left \$20 million that could be provided to the Region for investing. However, it is possible that opportunities may arise and Council priorities may change. If a project or projects were to arise that require substantial funding beyond our normal anticipated levels, and if Council was to be adverse to debt financing, then this amount would be reduced.

As we progress with the Capital Financing Sustainability Strategy, and possibly move to multi-year budgeting, this forecast can be refined further.

2. Ladder approach to investments

A ladder approach is to have investments that mature at various times in the future to coordinate with the projected capital requirement for that year. This will be built up over time based on market conditions and opportunities.

Our first investment was for a 2-year period, as we start with the lower rungs of the ladder.

3. Delegated authority to the Treasurer

All investments have been initiated by the Treasurer and are in accordance with the Municipal Act and the Town's Investment Policy.

4. Use of authorized dealers, including the Region

We currently have arrangements to make investments with the following:

- Royal Bank – our corporate banker
- CIBC Wood Gundy – another schedule A bank that has been communicating with us

At this time, we have not contacted or been contacted by any other banks.

The Region has expressed their confidence that they will be able to include Newmarket in its investment portfolio management program. They have been sent a copy of our Investment Strategy and Policy. A meeting is being arranged to sort out the details. It is our understanding that participation in this program will require a minimum investment of \$20 million.

5. Investment guidelines

The investment made is allowed under Regulation 373/11 to the Municipal Act, meets or exceeds our investment benchmark, and complies with our investment policy – including the restrictions by source in the Investment Policy Procedures, Appendix A of the Investment Policy.

On October 31, 2013, we purchased a \$5 million Guaranteed Investment Certificate (GIC) from CIBC Wood Gundy. It has a 2-year term and pays annual interest of 2.1%. Our guidelines state that GIC's must be from a Schedule A Bank and that there is no limit to the proportion of our portfolio that can consist of GIC's.

6. Benchmarks for returns

The benchmark for short-term returns, as set out in the Investment Policy, is the prime rate less 1.75%. This is the rate that we can currently get on our bank balances. Currently, this is 1.25% per annum.

The benchmark for returns on non-traditional investments is the prime rate, which is currently 3%. This is the minimum return that is required.

7. Consideration of non-traditional investments

A non-traditional investment would typically be a loan to an outside party or an internal loan to finance projects that have a monetary return (such as budgetary savings). We have 5 projects that fit into this category:

1. Golden Space Development – a \$1,379,307 loan for the deferral of development charges and planning fees. The start date was December 20, 2011. This was fully repaid on November 29, 2013.
2. Newmarket Soccer Club - a \$ 89,768 loan for the deferral of development charges and planning fees. The start date was September 30, 2011. This is being repaid over a 10-year term.

Although these two arrangements pre-dated the development of the Investment Strategy, the 2013 interest charges have been included as they fit with the intent of the strategy.

3. Newmarket Soccer Club - a \$ 2.8 million mortgage for the indoor facility. The loan was executed on December 20, 2013. The initial term is for 5 years and has a 25-year amortization period. Payments will be interest only until the sale of their Whitchurch-Stouffville property. The interest rate is prime plus 2%.
4. Solar Panels were installed at various Town facilities financed by a \$279,057 reserve fund loan. Interest is at 3%. The term is 10 years, which is 5 years less than the expected life of the equipment. Revenue of \$12,290 was generated – almost double the interest and amortization expense.

There are other projects in that category and they have not started yet. They are included in the 2014 budget and will be reported on for that year.

5. Honeywell Phase 2 Energy Retrofit Project - \$8,639,506
6. Solar Panels at the Ray Twinney Recreation Complex (\$600,000)

8. Application of incremental income

Incremental income is the amount by which the investment returns exceed the current benchmark of 1.25%. Interest revenue in the operating fund is projected to fall short of its budget target by about \$50,000. This was the amount by which the 2013 budget was increased in anticipation of increased investment revenues. Therefore, it would be appropriate to transfer incremental income, up to a maximum of \$50,000, to the operating fund.

For this reason, of the \$59,176 in incremental income earned, \$50,000 will be transferred to the Operating fund and the remaining \$9,176 will be allocated to the Reserve Funds. Approval of the Investment Strategy has delegated to the Treasurer the authority to make these transfers.

9. Reporting

In addition to the annual reporting required under the Investment Policy, the Investment Strategy proposed that for at least the first year, there should be quarterly reports. This is the first annual report. Quarterly reports will be issued throughout 2014.

A summary of investment activities and returns is attached as Appendix A.

Next Steps

There have been discussions with the Museum Board to commence an investment program for the Elman Campbell Trust Fund. They are working on a long-term cash requirement plan as a first step to facilitate this.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

This report links to Newmarket's key strategic directions in being Well Managed through fiscal responsibility.

CONSULTATION

We have consulted with our investment advisors and with York Region's Treasury branch.

HUMAN RESOURCE CONSIDERATIONS

Not applicable to this report.

BUDGET IMPACT

Operating Budget (Current and Future)

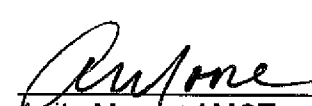
Of the \$59,176 in incremental income earned, \$50,000 will be transferred to the Tax-Supported Operating Fund. This is the additional interest income that was anticipated to be earned and included in the 2013 budget.

Capital Budget

The remaining \$9,176 in incremental interest income will be distributed to the Reserve Funds; a proportionate amount of which will be available for future capital expenditures.

CONTACT

For more information on this report, contact: Mike Mayes at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca


Mike Mayes, CGA
Director, Financial Services/Treasurer
Anita Moore, AMCT
Commissioner, Corporate Services

MM/nh

Attachment

Appendix A

Investment Summary for the Year Ended December 31, 2013

January 1 to December 31, 2013							
Description	Principal Amount	Starting Date	Term	Interest Rate	Return on Investment	Benchmark Return	Incremental Income
CIBC - GIC	\$ 5,000,000	2013-11-01	2 Years	2.10%	\$17,548	\$10,445	\$7,103
Loan - Golden Space Development Charges and Planning Fees	\$ 1,379,307	2011-12-20	2 Years	5.00%	62,730	15,683	47,047
Loan - Newmarket Soccer Club Development Charges and Planning Fees	\$ 89,768	2011-09-30	10 Years	4.00%	2,977	930	2,046
Loan - Newmarket Soccer Club Indoor Facility Mortgage	\$ 2,800,000	2013-12-20	5 Years	5.00%	4,219	1,055	3,164
Loan - Solar Panels	\$ 279,057	2013-12-01	10 Years	3.00%	698	291	407
Total					\$88,171	\$28,403	\$59,767
Incremental investment income included in 2013 Operating Budget, transferred to the Tax-Supported Operating Fund in 2013 per the Investment Strategy							50,000
Incremental investment income allocated to reserve funds in 2013 per the Investment Strategy							\$9,767