



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning & Policy Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	September 14, 2015
<b>SUBJECT/REPORT NO:</b>	Reserve/Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures Review (FCS15055) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
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<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

### **RECOMMENDATION**

That the 2014 Reserve/Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures be deleted and replaced with the 2015 Reserve/Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures attached as Appendix "A" to Report FCS15055.

### **EXECUTIVE SUMMARY**

The Statement of Investment Policies and Procedures ("SIPP") for the City of Hamilton Reserve/Revenue Funds and Trust Accounts, attached as Appendix "A" to Report FCS15055, has been revised. It contains two key amendments and other minor amendments of a technical nature which were made for the purpose of clarification.

On the first key amendment, staff recommends that a credit union sector be added to the list of permitted sectors and issuers (the "List") given in Appendix A of the SIPP and in accordance with Ontario Regulation 438/97 Eligible Investments and Related Financial Agreements under the Municipal Act, 2001 (the "Eligible Investments Regulation"). This amendment would permit the City to make particular investments in the credit union sector should a suitable investment opportunity arise.

On the second key amendment, staff recommends that an investment performance report be completed and presented to City Council annually as at fiscal year-end instead of semi-annually unless otherwise requested by City Council or the City

Treasurer as stated in Section 1.04 of the revised SIPP. Staff has determined that administrative efficiency can be increased without compromising effective information reporting to City Council by discontinuing the investment performance report as at June 30 of each fiscal year.

All the amendments made to the SIPP are consistent with the Municipal Act, 2001 and regulations therein.

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

Financial: None.

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND (Chronology of events)**

The types of securities (and the entities who issue them) which municipalities are permitted to invest in are prescribed by legislation and regulations, including the Eligible Investments Regulation.

Most of these securities and their issuers have been included by the City in its approved List. However, issuers in the credit union sector that are permitted under the Eligible Investments Regulation were by choice excluded when the List was originally created because at that time investments in this sector did not meet the SIPP's investment objectives.

However, over the last five years, the credit union sector in Ontario has undergone significant changes. In 2009, significant amendments were made to the regulation governing credit unions in Ontario that strengthened or improved their governance, risk management, and effective regulatory oversight. Together with the recent ultra-low interest rate environment, and the stricter regulation and supervision of Central 1 Credit Union (the credit union central for most credit unions in Ontario), these changes warrant the addition of the credit union sector to the List.

As with other sectors and issuers on the List, particular limits and restrictions would be imposed on the credit union sector (discussed in the Analysis and Rationale for Recommendation section of this report) in keeping with the four objectives of the SIPP: preserve capital; conform to legislative constraints; maintain adequate liquidity; and maximize returns while conforming to other objectives.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The City's SIPP for the Reserve/Revenue Funds and Trust Accounts would be impacted.

## **RELEVANT CONSULTATION**

Legal Services in the City Manager's Office was consulted in the preparation of this Report.

The Investment Officer at the City of Burlington was consulted and provided information on investments made by the City of Burlington in GIC's issued by credit unions and accompanied with an irrevocable and unconditional letter of guarantee issued by Central 1 Credit Union.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)**

### Key Amendment - Credit Union Sector

Staff plans to make investments in short-term GIC's issued by credit unions and with an unconditional irrevocable letter of guarantee issued by Central 1 Credit Union. The rationale is that these GIC's offer a superior rate of interest compared with the interest rates offered on comparable GIC's and banker's acceptances issued by Chartered banks; and with the daily interest rate paid by City's bank account (assuming interest rates remain constant).

These investments are planned for a portion of funds earmarked for short-term operational needs and would add diversification as well as benefit the overall rate of return earned by the City. Presently, these funds would earn interest in the City's bank account or would be invested in longer-term bonds in the portfolio.

From the List, investments in the credit union sector are subject to particular limitations or restrictions which are listed below together with a brief statement on the rationale for the limit or restriction.

- i. *The security is restricted to deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments issued, guaranteed or endorsed by a credit union or league to which the Credit Unions and Caisses Populaires Act, 1994 (CUCPA) applies.*

This restriction is consistent with the Eligible Investments Regulation.

- ii. *The security issued by the credit union must include an unconditional irrevocable letter of guarantee issued by the credit union central for the credit union in a form satisfactory to the City Solicitor and with content acceptable to the City.*

This restriction is imposed by the City to enhance the creditworthiness of the security. Most credit unions in Ontario are members of Central 1 Credit Union, a provincial credit union central rated A/Stable/A-1 by Standard and Poor's and identified by its regulator as a domestic systematically important financial institution in the context of the Canadian credit union system.

- iii. *On the day the investment is made, the term to maturity of the security must be less than or equal to one year.*

This restriction is imposed by the City to mitigate credit risk. With a short investment horizon, the creditworthiness of an issuer and the sector together with general credit conditions in the capital markets would be re-assessed within a relatively short interval (upon the investment's maturity) assuming reinvestment in either the same issuer or a different issuer within the sector. This is especially important for investments such as GIC's which unlike traded securities cannot be sold in the public markets and generally incur a penalty if redeemed prior to maturity.

- iv. *No more than eight percent (8%) of the portfolio shall be invested in investments of the credit union sector.*

The corresponding limit is 20% for A(low)-rated Schedule I banks; 10% for A(low)-rated Schedule II banks; and 10% for A(low)-rated Schedule III banks. A limit of 8% is considered reasonable and prudent for the credit union sector given the lower credit quality of credit unions compared with Schedule I, II and III banks.

- v. *No more than four percent (4%) of the portfolio shall be invested in an individual credit union.*

Imposing a limit for an individual credit union which is less than the overall limit for the credit union sector promotes diversification within the sector which in turn mitigates the credit risk associated with an individual credit union.

#### Key Amendment - Investment Performance Reports

Staff recommends that an investment performance report be completed and presented to City Council annually instead of semi-annually and as at fiscal year-end unless otherwise requested by City Council or the City Treasurer. The rationale is greater

administrative efficiency without compromising effective and relevant reporting to City Council.

#### Other Minor Amendments

As mentioned in Report FCS14027, "Treasurer's Investment Report 2013 Fiscal Year by Aon Hewitt", an amendment to the List has been made to state explicitly the requirement under the Eligible Investments Regulation that prescribed securities issued by Chartered Banks must have a minimum credit rating of "AA(low)" if the term to maturity is greater than two years.

Additional minor amendments of a technical nature were made to the List in order to provide clarification on credit rating requirements and types of permitted securities. All of the amendments are consistent with the Eligible Investments Regulation.

#### **ALTERNATIVES FOR CONSIDERATION**

**(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)**

Not Applicable.

#### **ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

##### **Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

##### **Strategic Objective**

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

#### **APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS15055 Statement of Investment Policies and Procedures – City of Hamilton Reserve / Revenue Funds and Trust Accounts