



MINUTES
SPECIAL COMMITTEE OF THE WHOLE
Tuesday, April 9, 2019
8:00 a.m.
City Hall Council Chambers

Present: Mayor D. Reynard
Councillor M. Goss
Councillor R. McMillan
Councillor A. Poirier
Councillor K. Ralko
Councillor S. Smith
Councillor C. Van Wallegghem

Staff: Karen Brown, CAO, Heather Kasprick, City Clerk, Charlotte Edie, Treasurer, Jon Ranger, Deputy Treasurer

Call Meeting to Order

Mayor Reynard called the meeting to order at 8:00 a.m.

Public Notices

Take Notice that as required under Notice By-law #144-2007, Council intends to adopt the following items at this Special Meeting of Council:

N/A

Declaration of Pecuniary Interest & General Nature thereof

- i) On Today's Agenda
- ii) From a Meeting at which a Member was not in Attendance

There were none declared.

Deputations

None.

1. ONE Group Presentation – Prudent Status Investment

Judy Dezell, the Director of Enterprise Centre, Business Partnerships & LAS was present to discuss the new investment powers and choices for municipalities. She formerly administered the Federal Gas Tax prior and here to talk about investments.

Municipalities need to invest their money to avoid "excessive" property tax rate increases.

This can supplement property tax rate revenues and a municipality can then be able to pay for all of the things that the public expects governments to pay for. Maximize non-tax revenue wherever they can get it. Fund financial strategy for asset management plan.

Slightly less than 50% of Ontario municipalities have populations of 5,000 or less. 3 to 4% of Ontario's population lives in these communities. 6% of municipalities are cities and towns with populations of over 100,000. Approximately 70% of the provincial population lives in these municipalities. Approximately 23% of municipalities would gain less than \$20,000 by implementing a 1% tax hike. For municipalities at the <\$20,000 level, this means that to hire one full-time employee at \$60,000.00/year means a minimum 3% increase or more raise in property tax levies.

Under the Municipal Act, prior to the changes was the ability to do changes which we were doing but based on a legal list with very restrictive options. Canadian Bonds had to be a minimum of a double A rating. That is part of the reason to introduce the Prudent Investment standard. You buy investments when you need them without having to worry about having to manage the risk. The province isn't running you through the legal list. The legal list is basically just Canada. We as a country only represent 3% of the legal trading world.

Prudent investment requires a fiduciary to invest trust assets as if they were her or his own by knowing the answers to the following questions: What are your investment goals and objectives? How much risk are you willing to take? How will you define and measure risk? What is your time horizon? Do you need liquidity? Are there any other unique considerations that the municipality has to think about with investing?

OMERS uses the Prudent Investment investing. Anybody who is a trustee administering other peoples funds will have to follow this standards. Governs trustees and pension fund administrators. The provision enables the potential to earn improved risk-adjusted rates of returns.

What are the Benefits of Prudent Investor standard? More diverse portfolio; Greater choice, flexibility; Ability to adjust to changes in financial environment or need and potential for better returns. Council gets to determine the municipal risk tolerance instead of province dictating through regulation. Risk managed specifically to meet your own unique municipalities' needs.

The Municipal Act did include some requirements. There are obligations of Council. There is eligibility criteria and a municipality may invest money that it does not require immediately in any security so long as it meets eligibility criteria, follows specific duties, considers specific investment planning criteria, establish a specific governance model.

A municipality or pool of municipalities must have: \$100 million in investments OR \$50 million in net financial assets. 39 municipalities qualify on their own (based on 2016 FIRs) Toronto is governed by their own legislation. If you meet one of the criteria on your own, you could become a Prudent Investor on your own. We could become a Prudent Investor all on our own. Municipality must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making such an investments including obtain the advice that a prudent investor would obtain under comparable circumstances. These are critical pieces in terms of duties as Council.

Municipality must in making such an investments including consideration of: General economic conditions; the possible effect of inflation or deflation. The role that each investment or course of action plays within the municipality's portfolio of investments. The expected total return from income and the appreciation of capital, needs for liquidity, regularity of income and preservation or appreciation of capital. The municipality must diversify its investments to an extent that is appropriate to general economic and investment market conditions.

The Governance model investment powers as a Municipal Council are delegated to an arm's length Investment Board (individual or joint). That investment Board is a municipal service board. Staff and Council excluded from being on the Board, except the municipal Treasurer. The Municipality will develop an investment policy and monitor performance and compliance by the Board and the Treasurer has duty to report on investments that do not comply with investment policy. The investment Board will develop an Investment plan, Monitor and report on performance, will hire agents to manage investment funds.

A municipal by-law is required to opt-in to prudent investor standard by passing the by-law Council is giving control and management of its: Powers to make investments to either an Investment Board or Joint Investment Board; and, the municipality's duties under section 418.1 (Prudent Investor). Delegating all of this to an investment Board.

The treasurer still must monitor investment performance, annually review the investment policy. A lot of municipalities adopt an investment policy and don't touch for many years, but under this model it must be reviewed annually. Ensure that the investment plan executed by the IB or JIB is consistent with the policy. Council must at least annually review the Investment Policy. After which the IB or JIB must then review the Investment Plan and update it, as necessary, to ensure continuing compliance.

Right now the only example we have in the municipal sector is the City of Toronto, where they came into the investment board model in January 2018. This is key as we use best practices. In the case of the City of Toronto, they have determined that money isn't needed in next 18 months is long term money. It is up to each municipal council what long term money is. Thinking between 18-24 months. The Treasurer would review and do some analysis of what long term money is for Kenora. Any shorter money is managed as it is today.

The Investment Policy must include requirements with respect to the municipality's return on investment. What's your risk tolerance? This will be an interesting discussion around the Council table. We may have dollars that we don't necessarily directly need money for 10 years and based on what our tolerance is we could determine what our level of comfort is.

They recognize there is a need for liquidity, including the municipality's anticipated needs for funds for planned projects, the municipality's needs to have funds available for unanticipated contingencies and the need for money for those. Municipalities must diversify their investments to an extent that is appropriate to general economic and investment market conditions. What does this look like? Adopt and maintain an Investment Plan based on Investment Policy.

Set out the projections of the proportions of each municipality's portfolio of investments to be invested (investment mix). Annual Investment Report to Council (more frequently

if required by Council). In comparison, the prudent investor standard vs legal list: Council develops a statement of investment policies and goals, easy to monitor in theory.

Steps include Council develops a statement of investment policies and goals, easy to monitor in theory, regulations can be difficult to interpret, time consuming to adjust to reflect evolving capital markets, may provide a false sense of security, risk is determined by the legal list, ability to diversify is more limited.

Prudent Investor Standard Council develops an investment policy, the IB or JIB develops an investment plan to support Council's policy, monitoring requires more detailed policies and procedures, requires more detailed independent due diligence, evolves concurrently with capital markets, consist with fiduciary duty, risk can be determined and controlled at the portfolio level, ability to provide greater diversification and risk reduction.

Kenora has options. Council needs to ask themselves if they are you ok with investing the way we are now, or would Kenora explore Prudent Investor.

One example is we could remain on the legal list. We could continue the existing investment strategy. ONE Investment funds: HISA, Bond, Universe Corporate Bond, Equity, RBC for legacy funds.

Kenora Council can develop an investment Board and Develop an Investment Policy Statement. They must establish an Investment Board and hire an external consultant to provide research on fund managers. You would hire a Portfolio Manager to support the Investment Board. The City of Toronto is the only example and they determined a set amount to establish a board, and hire more staff than anticipated to monitor the investments.

Council cannot sit on the Investment Board, and the only staff is the Treasurer that can sit on the investment board. These folks that sit on the board expect to get paid.

One Joint Investment Board. They are looking to develop one joint investment board. They are in discussion with 7 municipalities. Whitby Council last night agreed to moving forward with this. That means they have one on board.

To be a founder of the ONE Joint Investment Board which gives you access to: investment advice with an Investment Manager on staff. ONE Investment has been around for 25 years. In 2018 they decided that they wanted to be able to provide this investment advice. In order to do that you needed to have a license or exemption. ONE Investment was into Not for profit which allowed them to give investment advice to Ontario municipalities. They now have on staff a CFA, who can provide advice on your investments. They have done all the legal work do develop this board. There has never been a case of more than one municipality coming together to form a joint investment board. They have hired a consultant (AON) interviewed global equity managers in March and very close to making decisions. Hiring a global bond manager very soon.

The Ontario Securities Commission exemption Legal investment in establishing what is required to build a joint investment board. They hired a consultant to conduct research for fund managers (global equity and bond search underway). Portfolio management system to monitor compliance with each municipal Investment Policy Statement. Built with small, medium, rural and northern municipalities as the target audience.

They are doing a complete turnkey service from investment advice, monitoring and compliance to keep the municipality in line with legislation. They are here to help us, don't work to create more work for finance or Council and there are templates to use for the staff to report to Council. Staff don't have the capacity to take on new things. They are going to be giving the key tools needed. Will be seeking a legal opinion that they are in full compliance with the Municipal Act. They are full service offering. Education via seminars, newsletters, visits. There is councillor training for investments and will come and talk to Council at any time.

Investment Plan that changes with shifting cash needs; minimum annual review; coming soon for comment. Building a template so that you will be able to see it before you pass anything. The account structure matches the investment needs. That is why they are interviewing managers for these positions.

Investment by Investment Manager in externally managed funds; JIB oversight. ONE investment has an advisory committee and on that committee they have about 35 years of investment experience. They have invested a lot in those members regarding the municipal sector. They are proposing that some of the individuals that sit on the investment advisory committee sit on the 9 member investment board. The Municipal Act requires that 25% of the positions be for treasures (2 spots). This is a skills based board and the competencies are very important.

Daily monitoring of portfolio constraints, rebalancing as needed, through portfolio management system. Reporting quarterly + annual presentation and Plan review + portal to holdings.

There are funds that are contingency/stabilization: where you need some long-term growth, or contingency where you need some funds due to an unforeseen circumstance. Or there may be funds that you need in the future for something you are going to build in the future. We are going to build building blocks based on your risks of outcomes of what you are trying to achieve. There will be a point where you need to take money out. Regular, reliable returns to fund operations.

They will be created using building block funds with different weights aiming for features that allow options of reinvesting or taking cash out. Contingency outcome is used for tax or fiscal stabilization reserve. Used for savings and used like an insurance protection.

This is the kind of stable model income they are looking to offer. Different size of income you are going to have to have a real good conversation about what kind of thing you will need. It will change how your investments are managed.

They are not going into the private area at all right now. There is the need for rebalancing. There is an ongoing conversation.

There are new things to consider. Major announcements about infrastructure are out right now and now you may need the money back. Be rest assured that they have thought about that and are working towards a broad range of investment options. There will be combinations of new investment opportunities. It gives you the governance structure and that is not going to change.

In terms of ONE Investment program, they are building solutions and looking for founding members. There is a report on today's regular Committee of the Whole agenda directing staff to look into this further and bring a recommendation forward to Council.

Councillor Smith questioned that this allows non-profits and boards. It allows not for profits boards to be involved. The NWHU is restricted will they have an opportunity to be involved in joint investment boards? It will be municipal investments board only.

The advantage to be a founding member was outlined as there will be a financial advantage to the founding members. Being a founding member is being a leader. Looking for the leaders, they are looking for leaders right now to move forward.

Mayor Reynard thanked Judy for attending and providing detailed information on the options available to us.

Meeting adjourned at 8:51 a.m.